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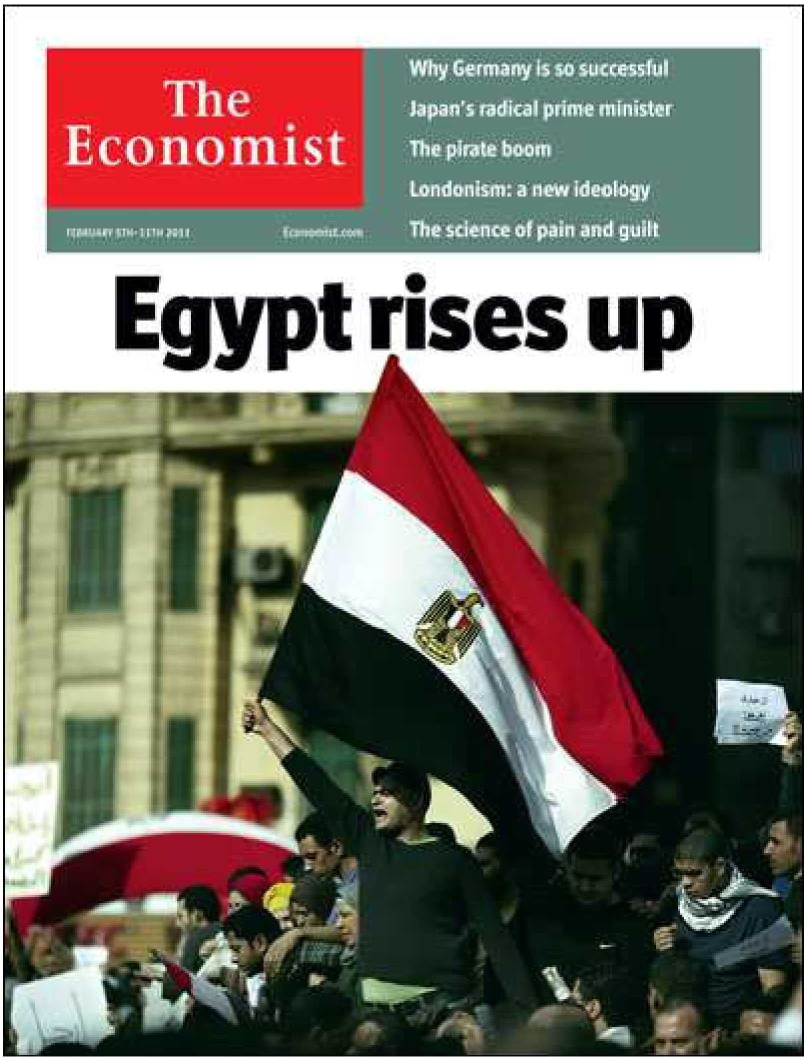


Politics this week

Feb 3rd 2011 | from PRINT EDITION

The 30-year-long reign of **Egypt's** president, Hosni Mubarak, came ever closer to an end, as hundreds of thousands of Egyptians filled the centre of Cairo, calling on him to step down. There were also big demonstrations in Alexandria, Suez and other Egyptian cities. A loose opposition front took shape, including secular liberals, students, trade unionists and Islamists, with Mohamed ElBaradei, a former head of the UN's nuclear watchdog, tentatively at its head. Violent clashes broke out as government supporters tried to clear the protesters from the streets of Cairo. See article

After a month of protests in **Jordan**, King Abdullah sacked his government and appointed a new prime minister. Opposition leaders, who want the king's powers curbed, said this was not enough. See article

With demonstrations continuing in **Yemen**, Ali Abdullah Saleh, the country's president, announced that he would step down in 2013 when his current term expires and that he would not hand power over to his son. See article

Iraq's health ministry said that 159 civilians were killed in violent attacks in January, the highest monthly death toll since September; 55 policemen and 45 troops were also killed. On January 27th a car-bomb attack on a funeral in a Shia district of Baghdad left at least 45 people dead and injured scores more.

Official results of a referendum last month in **South Sudan** put those voting to secede from the rest of Sudan at nearly 99%. The new country is expected to come into formal existence on July 9th. See article

No bail-out for Cowen

Ireland's prime minister, Brian Cowen, called an early general election for February 25th. He is standing down; his Fianna Fail party is expected to lose badly. Standard & Poor's set the scene by downgrading Ireland's credit rating by one notch, from A to A-.

The **Irish government** said it would expel a **Russian diplomat** after an investigation revealed that six Russian spies in America had used stolen Irish identities. Russia threatened to retaliate.

America and the European Union imposed sanctions on officials from **Belarus**, after December's stolen presidential election. They also promised aid to opposition groups seeking to oust Belarus's president, Alyaksandr Lukashenka.

Four traffic policemen were shot dead in Kabardino-Balkaria, a republic in the **north Caucasus**, and two insurgents were killed in Dagestan, highlighting the lawlessness prevalent across the region.

Spain's government concluded a social pact with employers and unions that includes wage-bargaining changes and a rise in the pension age to 67 by 2027. The euro crisis has increased the pressure on Spain to make reforms. See article

Mexican two-step

Angel Aguirre Rivero, of the leftist Party of the Democratic Revolution, was elected governor of the state of Guerrero in southern **Mexico**. The race had been close, but Mr Rivero benefited when the candidate from the conservative National Action Party dropped out, in order to prevent the Institutional Revolutionary Party from coming to power. The two parties may try to repeat their ideologically incongruous alliance at next year's presidential election.

Assets worth $5.7m belonging to Jean-Claude "Baby Doc" Duvalier, a former dictator of **Haiti**, were frozen after Switzerland implemented a new law making it easier to confiscate the wealth of foreign politicians. Mr Duvalier returned to his country last month after 25 years in exile, and faces criminal charges there.

Closing in

India's former telecoms minister was arrested in a corruption scandal involving the sale of licences for mobile networks. Andimuthu Raja, an ally of the ruling Congress party, resigned in November when it emerged the licences had been sold for less than they were worth, potentially costing India $38 billion in lost revenue and tarnishing the clean image of Manmohan Singh, the prime minister.

Myanmar's dictator, Than Shwe, chose not to run for the post of president, who will be elected by the country's new sham parliament. Presumably he will continue to exercise power behind the scenes.

The constitutional court of **Kazakhstan** rejected a proposal by parliament, criticised by America, to allow the long-serving president, Nursultan Nazarbayev, to remain in office until 2020. The parliament, made up entirely of members of the president's party, then passed constitutional amendments allowing Mr Nazarbayev to call a snap election, throwing what counts for the opposition off-guard.

The world's greatest internal migration began in **China** as people returned to their hometowns to celebrate the New Year of the Rabbit. Perhaps two billion trips will be made over the coming weeks.

Looking a bit poorly

A federal judge in Florida ruled that the health-insurance mandate contained in the **health-care-reform** act was unconstitutional, and that as the provision is so integral to the reforms the whole act should be overturned. Four federal courts have now made decisions on the act, two of which support the legislation. Meanwhile, a measure to repeal the act, passed by Republicans soon after taking control of the House, was defeated in the Senate.

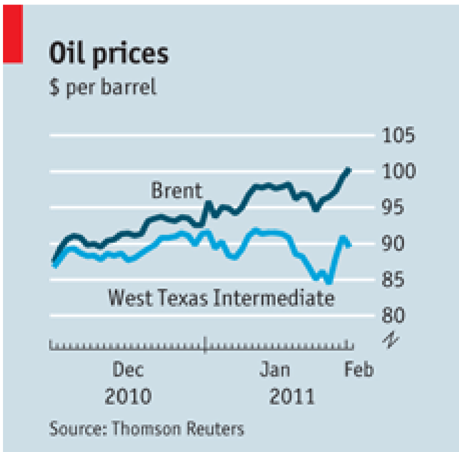
Early voting in **Chicago's** mayoral election was disrupted by a blizzard. There were no further disruptions to Rahm Emanuel's campaign after Illinois's Supreme Court reinstated his candidacy, rejecting a lower court's argument that the former White House chief of staff did not meet the state's residency requirements. Election day is February 22nd.

Jon Huntsman said he was stepping down as America's ambassador to China, fuelling speculation that he will join the list of potential Republican candidates for president. Mr Huntsman was governor of Utah when Barack Obama picked him for the Beijing job in 2009. See article

The Democrats chose Charlotte, North Carolina, as the host city for their presidential nominating **convention** next year. In 2008 Barack Obama became the first Democrat to win the state since Jimmy Carter in 1976. The Republicans are holding their 2012 convention in Tampa, Florida.

Business this week

Feb 3rd 2011 | from PRINT EDITION



Concerns that the instability in Egypt could affect shipping in the Suez Canal and disrupt oil supplies from the Middle East caused **oil prices** to rise further, with Brent crude topping $100 a barrel in London for the first time since 2008. Oil traded at a lower price on the New York Mercantile Exchange, partly because of a build-up in oil inventories at a big storage facility in Cushing, Oklahoma.

BP outlined a new strategy that it said would make it "safer and stronger". The energy company plans to increase significantly its investments in exploration, focus on growth in emerging markets and rationalise its business in "mature" areas. It will sell two refineries in America, including its site at Texas City, where 15 workers died in an explosion in 2005. The company announced a headline $4.9 billion loss for 2010 and took a $40.9 billion charge for the Gulf of Mexico oil spill. Shareholder dividends, suspended during the height of that crisis, were reinstated.

BP also affirmed its commitment to seek "new partnership opportunities". However, its recently announced partnership with Russia's **Rosneft** was challenged in court this week by investors in BP's existing Russian venture, **TNK-BP**, who argue that the Rosneft deal contravenes their arrangement. The judge sent the two sides to arbitration until February 25th. See article

Exxon Mobil, which last month sealed an agreement with Rosneft to develop assets in the Black Sea, made a profit of $30.5 billion in 2010, up by 57% from 2009, on revenue of $383.2 billion.

Nippon Steel, Japan's biggest steelmaker, and **Sumitomo Metals**, a smaller rival, said they were planning to merge next year. The pair already work together; a merger would make them the world's second-largest steel firm, far behind ArcelorMittal. See article

Alpha Natural Resources and **Massey Energy** announced a merger in an $8.5 billion deal that creates the world's third-biggest supplier of metallurgical coal to steelmakers.

Going for a song

Citigroup seized control of **EMI** from **Terra Firma Capital Partners**, concluding that EMI was insolvent and writing off pound2.2 billion ($3.6 billion) of the music company's pound3.4 billion debt. Terra Firma acquired EMI in a leveraged buy-out in 2007 and has struggled with a loan it obtained from Citi to fund the deal. The private-equity firm lost a court case last year in which it alleged that Citi had bamboozled it into buying EMI, which is up for sale again. See article

An official first estimate showed that **America's GDP** increased by 3.2% in the final three months of last year, as consumer spending rose by 4.4%, the fastest clip since the start of 2006. The economy grew by 2.9% for all of 2010.

Trading was poised to restart in Europe's **carbon market** after a two-week shutdown prompted by hackers stealing electronic carbon-permits from accounts in the Czech Republic and elsewhere. See article

Performance review

Goldman Sachs said it had approved an annual base salary (excluding stock options) of $2m for Lloyd Blankfein, representing a pay rise of 233% for its chairman and chief executive. Net profit at Goldman fell by 38% last year.

BTGPactual, a Brazilian bank, agreed to buy a controlling stake in **Banco PanAmericano**, which specialises in credit cards and car loans and last November was found to have a $1.5 billion hole in its accounts.

Chrysler reported a loss of $652m for 2010, its first full year of operations since leaving bankruptcy protection and forming a partnership with Fiat. The carmaker would have made a profit in the fourth quarter but for interest it paid on government loans; it insists it is on the road to profitability this year. Earlier, **Ford** posted net profit of $6.6 billion for 2010, its biggest in 11 years.

What's in your phone?

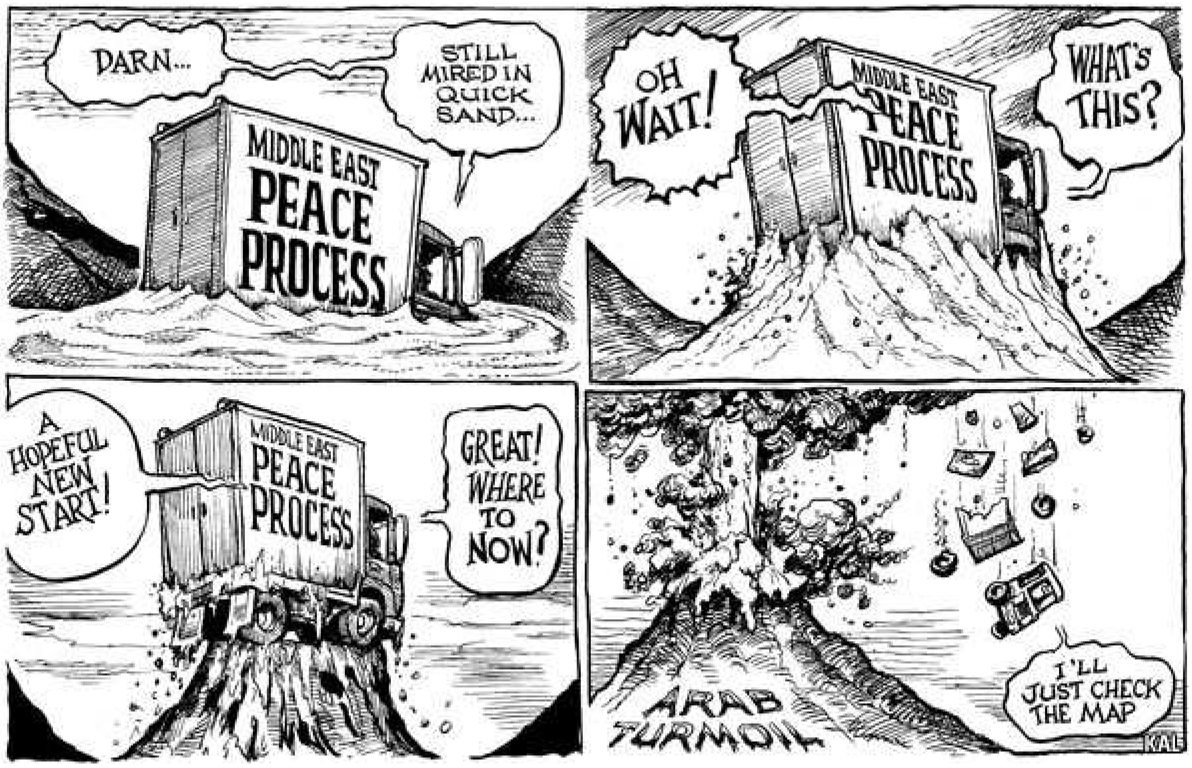
Google's Android operating system was the most popular platform for **smartphones** at the end of 2010, according to a report from Canalys, a tech consultancy. Based on shipments, Android was used in 33% of smartphones, vaulting it ahead of Nokia's Symbian (31%), Apple's iOS (16%) and the BlackBerry platform (15%). Apple will probably get a boost this year from Verizon Wireless's new iPhone service in America.

Pfizer's decision to close its leading research centre in Britain produced much political hand-wringing about the future for British commercial science. The centre, in Kent, employs 2,400 people and had developed some of Pfizer's best-known drugs, including Viagra. With demand for some of its products expected to droop in the face of stiff competition from generic rivals, Pfizer is trimming its R&D worldwide.

Index | The world this week

Daily Chart

Feb 3rd 2011 | From *The Economist* print edition



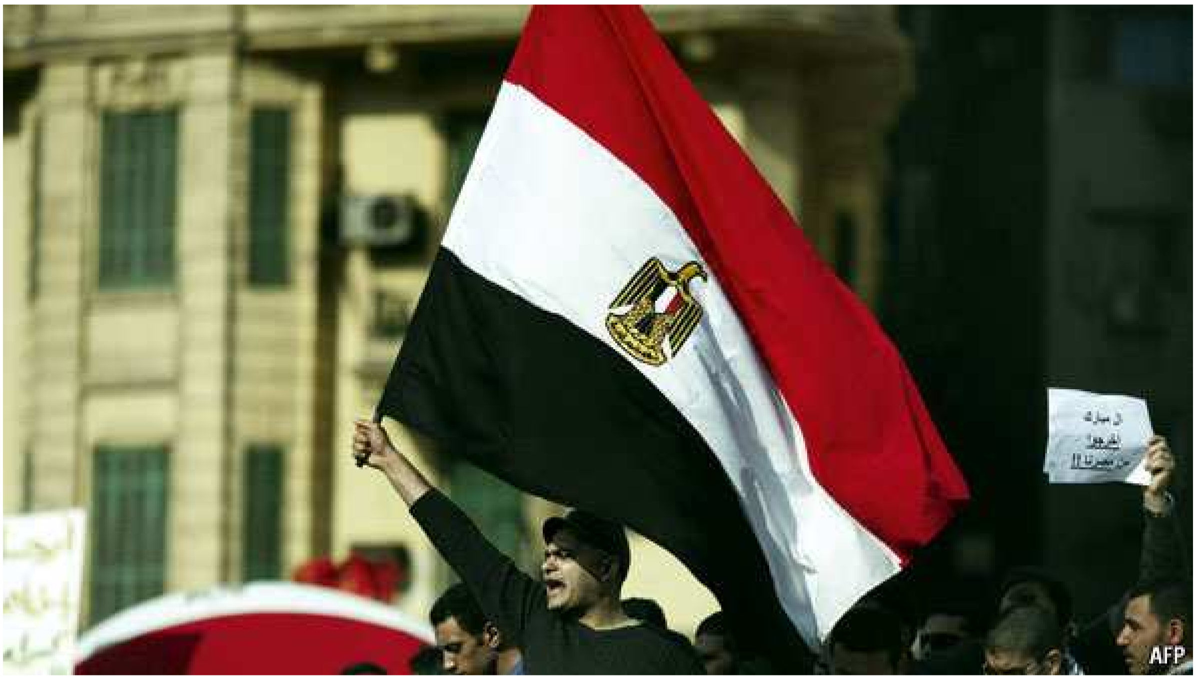
Index | Leaders

Democracy in the Arab world

Egypt rises up

Feb 3rd 2011 | from PRINT EDITION

The West should celebrate, not fear, the upheaval in Egypt



FROM fear of autocracy through euphoria to fear of chaos: over the past ten days, Egypt has been through an intense emotional arc. The protests that started with a few thousand people on January 25th escalated to a thrilling climax on February 1st, when hundreds of thousands assembled in Cairo's Tahrir Square to demand the removal of Hosni Mubarak, and then deteriorated into violence as the president's supporters attacked demonstrators.

But despite the ugly scenes mid-week, the developments in Egypt should be welcomed. A downtrodden region is getting a taste of freedom. In the space of a few miraculous weeks, one Middle Eastern autocrat has fallen, and another, who has kept the Arabs' mightiest country under his thumb for 30 years, is tottering. The 350m-strong Arab world is abuzz with expectation; its ageing autocrats are suddenly looking shaky. These inspiring events recall the universal truth that no people can be held in bondage for ever.

For some in the West, which has tended to put stability above democracy in its dealings with the Middle East, these developments are disturbing. Now that the protests have sucked the life out of Mr Mubarak's regime, they argue, the vacuum will be filled not by democrats but by chaos and strife or by the Muslim Brothers, the anti-Western, anti-Israeli opposition. They conclude that America should redouble its efforts to secure a lengthy "managed transition" by shoring up either Mr Mubarak or someone like him.

The Rosetta revolution

That would be wrong. The popular rejection of Mr Mubarak offers the Middle East's best chance for reform in decades. If the West cannot back Egypt's people in their quest to determine their own destiny, then its arguments for democracy and human rights elsewhere in the world stand for nothing. Change brings risks-how could it not after so long?-but fewer than the grim stagnation that is the alternative.

Revolutions do not have to be like those in France in 1789, Russia in 1917 or Iran in 1979. The protests sweeping the Middle East have more in common with the popular colour revolutions that changed the world map in the late 20th century: peaceful (until the government's thugs turned up), popular (no Robespierre or Trotsky running things behind the scenes), and secular (Islam has hardly reared its head). Driven by the power of its citizens, Egypt's upheaval could lead to a transformation as benign as those in eastern Europe.

Pessimists point out that Egypt has neither the institutions nor the political leadership to ensure a smooth transition. But if it did, the people would not have taken to the streets. No perfectly formed democracy is about to emerge from the detritus

of Mr Mubarak's regime. Disorder seems likely to reign for some time. But Egypt, though poor, has a sophisticated elite, a well-educated middle class and strong sense of national pride. These are good grounds for believing that Egyptians can pull order out of this chaos.

Fear of the Muslim Brotherhood is anyway overdone. It is true that the Brothers produced Ayman al-Zawahiri, now Osama bin Laden's number two and chief ideologue; the writings of Sayyid Qutb, the Brothers' leading thinker in the 1950s and 1960s, are certainly intolerant and hostile to the West. Any new Egyptian government, especially if it included the Brothers, would probably be harder on Israel and easier on Hamas, the Islamist offshoot that runs the Gaza Strip between Egypt and Israel, the very existence of which it in theory rejects.

Yet the Brothers are a varied bunch, and more flexible than they were. Though some argue for rescinding Egypt's peace treaty of 1979 with Israel, they probably would not risk another war. Nor would they obviously win elections. They are respected for their piety, discipline and resilience, but estimates of their popularity hover around 20% and have been falling. If they did better than that, perhaps even winning power at the ballot box, some fear they might never let go. But Islamists participate in elections in countries such as Turkey, Malaysia and Indonesia where democracy has taken hold.

If democracy is to flourish in Egypt, the Brothers must be allowed to compete for power; and the lesson of the past few weeks is that the alternative to democracy is a dead end. For several years now, unable to renew its institutions or find jobs for its youth, Egypt has been becoming more repressive. To leave 85m people to live under dictatorship-burdened by a corrupt and brutal police force, the suppression of the opposition, and the torture of political prisoners-would not just be morally wrong; it would also light the fuse for the next uprising. Some would wish to install a new strongman and wait for him to create the conditions for a secular democracy. But autocrats rarely plan for their own removal, as the sad state of the Middle East shows.

Barack and Mubarak

Despite the undoubted difficulties in the short run, even a messy democracy could eventually be a rich prize-and not just for Egyptians. A democratic Egypt could once again be a beacon to the region. It could help answer the conundrum of how to incorporate Islam in Arab democracies. And, though Israel is understandably fearful of the threats on its borders, an Egyptian government that speaks for the people might one day contribute more to a settlement with the Palestinians than an authoritarian's "cold peace" ever could.

The West can help win this prize. Its pursuit of stability above democracy has damaged its image, but it can make amends now. America in particular still has influence with Egypt's political, business and military elite. If it uses that, it could help speed the transition from autocracy through chaos to a new order and improve its standing in the region.

Egypt's upheaval may make Westerners nervous, but when Egyptians demand freedom and self-determination, they are affirming values that the West lives by. There is no guarantee that Egypt's revolution will turn out for the best. The only certainty is that autocracy leads to upheaval, and the best guarantor of stability is democracy.

Index | Leaders

Somali piracy

At sea

Feb 3rd 2011 | from PRINT EDITION

Piracy off the coast of Somalia is getting worse. Time to act

LAST year, pirates took 1,181 people hostage off the Somali coast. About half were released after the payment of ransoms, a few have died of abuse or neglect and around 760 are currently in captivity. They are usually held prisoner on their own hijacked vessels, some of which are employed as mother-ships from which the pirates stage further raids. So far this year, there have been 35 attacks, seven of them successful. In March, when the monsoon abates and the Arabian Sea grows calmer, the pace of the attacks will quicken.

The problem has worsened sharply in recent years. There were 219 attacks last year compared with 35 in 2005. Ransoms paid last year climbed to $238m, an average of $5.4m per ship, compared with $150,000 in 2005. At the end of last month Jack Lang, a former French minister who advises the UN on piracy, warned the Security Council that Somali pirates were becoming the "masters" of the Indian Ocean. He puts the economic cost of piracy at $5 billion-7 billion a year (see article). The price in human misery is unquantifiable.

However, eradicating Somali piracy is as hard as it is desirable. Because Somalia is not a functioning state, the pirates can operate freely from their harbours in the north, mostly in the breakaway territory of Puntland. Although ships from over 25 countries patrol the area and maritime law equips naval vessels off the Horn of Africa with powers of arrest, bringing pirates to justice is frustrated by cost, restrictive rules of engagement and politics. Hence 90% of captured pirates are released quickly and without sanction. And the foreign patrols' effectiveness is declining as the pirates move ever farther offshore.

There are many suggested remedies, some bad. Outlawing ransoms is neither feasible nor in the hostages' interests. Stationing armed guards on vessels or training crews to use firearms would only provoke a more brutal response from the pirates. Applying the historic cure for piracy-exemplary violence-would lead to many more dead hostages.

The successful campaign against the pirates who caused mayhem in the Malacca Strait a decade ago suggests that the answer lies onshore rather than offshore. Malaysia, Indonesia and Singapore agreed to bury their differences and work together-patrolling, arresting, prosecuting and imprisoning pirates. At the same time as the risks for the pirates increased, conditions on shore improved. The post-tsunami peace settlement between the Indonesian government and rebels in Aceh, where most of the pirates came from, paved the way for investment, economic development and a better way of life.

A black spot

A similar twin-track policy for Somali piracy would mean first putting money and effort into training coastguards, and constructing courts and prisons in the region. The authorities should also go after the dozen known kingpins who back the pirate gangs. At the same time, because it will take decades to rebuild the shattered Somali state, the outside world must itself engage directly with Puntland's clans and help rebuild villages, infrastructure and fisheries which have been ravaged by foreign trawlers and the dumping of toxic waste. Although the region is chaotic, its prospects are not hopeless: neighbouring Somaliland, a breakaway piece of Somalia unrecognised by the rest of the world, makes a fair fist of governing itself.

The European Union, which operates one of the biggest anti-piracy naval forces in the area, says it is committed to a "comprehensive approach" that combines bringing pirates to justice and helping them find other livelihoods. It is a chance for Lady Ashton, the EU's foreign and security chief, to show that her new external action service merits the name.

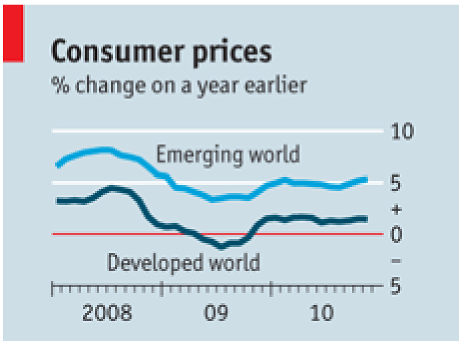
Index | Leaders

Inflation

Greater expectations?

Feb 3rd 2011 | from PRINT EDITION

Inflation is rising, but worries are overstated



WHEREVER you are reading this article, inflation is probably in the news. Soaring commodity prices are pushing up consumer prices across the globe. The pressure is clearest in fast-growing emerging markets, where people spend a big slice of their incomes on food. China's inflation rate is hovering around 5%, Brazil's is approaching 6% and India's remains close to 10%. Even in enfeebled rich economies the "I" word is back on the front pages. Britain's consumer prices rose 3.7% in the year to December. Prices in the euro area rose 2.4% over the past year, above the European Central Bank's goal of 2% or less.

The big worry is that global monetary conditions are far too loose, thanks both to rock-bottom interest rates and bloated central-bank balance-sheets in the rich world and to emerging economies' inability, or unwillingness, to tighten policy enough in response. This combination suggests inflation could run out of control if left unchecked. Today's concerns are manifesting themselves in different ways in different places (see article). In emerging markets, politicians fear social unrest and technocrats fret about economies overheating. Inflation jitters are also rising among some central bankers in rich economies, where deflation until recently seemed the bigger threat. Two members of the Bank of England's policy committee last month voted for an immediate rise in interest rates. A prominent ECB official says increases in Europe's imported inflation "cannot be ignored".

Yet central bankers should not be very alarmed either by the scale or by the dynamics of overall inflation. Inflation is up, but hardly high. In no big economy, emerging or rich, is it at the peaks reached in 2008 (in America it is merely 1.5%). Much of its recent rise is driven by what are clearly one-off factors, from weak Russian harvests that sent grain prices soaring to the rise in value-added tax in Britain. Central bankers should ignore such temporary shocks. Their role is to prevent one-off surges from translating into persistently higher pressure on prices.

So far there is little evidence of that. In America "core" consumer prices, which exclude food and fuel, rose by a modest 0.8% in the year to December. In the euro zone core inflation has recently held steady at 1.1%. Even in booming emerging economies core consumer prices are rising much more slowly than they were in 2008.

Over time, temporary price pressure can become entrenched, through either consumers' expectations of future inflation or workers' demands for higher wages. That does not seem likely to happen. In most rich countries, inflation expectations have risen only from very low to low, and high unemployment keeps workers from demanding pay rises. Without higher wages to compensate, rising food and fuel prices will cut into consumer spending-which in turn suggests lower, not higher,

inflation down the road. That is especially so in countries such as Britain where fierce fiscal austerity is also set to dampen spending.

Germany may be an exception. With its economy humming, and unemployment falling, German wages may start to accelerate. Unlike their Anglo-Saxon counterparts, German workers might claw back the recent rise in food and fuel. But that would be good news, not bad. German wages have been squeezed for a decade; faster wage growth would boost domestic demand and help to reorient Germany's economy (see article). And slightly higher inflation in Germany would make life easier for the indebted peripheral economies of the euro zone, because the cuts in wages and prices needed to make them competitive would be smaller. For both reasons, the ECB should not crack down on inflation.

The tools to use

In emerging economies, it is a different story. Most are racing along, with monetary conditions a lot looser than they were in 2008, posing a real risk of a persistent inflation problem. But even here the dangers can be exaggerated. China's rising wages and prices, for instance, should help to rebalance its economy towards domestic spending-the practical equivalent of a stronger currency. Low interest rates in rich economies make life more complicated for policymakers in emerging ones: if emerging-market policymakers raise rates, they attract more foreign capital, fuelling inflation. They can try to keep the cash out through controls on foreign capital, but these are often ineffective. Far better to slow spending, and thus inflation, with tighter fiscal policy. In India and Brazil the main inflation-fighting tool ought to be a smaller budget deficit.

All this suggests there is little to get in a lather about. Inflation is always a cause for concern. But, today, not for panic.

Index | Leaders

Germany's economy

Angela in Wunderland

Feb 3rd 2011 | from PRINT EDITION

What Germany's got right, and what it hasn't

THE West has rightly marvelled at China's economic miracle. Less noticed is a minor miracle in its own midst. It is time to pay attention to Germany's new *Wirtschaftswunder*.

Germany had a savage recession as manufacturing orders dried up, but its economy has since bounced back strongly, expanding by 3.6% last year, far faster than most other rich economies. For sure, this was partly a "bungee effect" after a particularly deep downturn, but it is no one-year wonder. By several measures, including keeping unemployment down (it is at its lowest since 1992) and the prosperity reflected in the growth of GDP per head, Germany was the star performer among the rich G7 countries over the past ten years (see article). Germans entered 2011 in their most optimistic mood since 2000, according to Allensbach's polls. Business confidence is at its highest since the Ifo institute began tracking it 20 years ago.

What's Germany's secret? It helps that the country did not experience a property or credit bubble, and that it has kept its public finances admirably under control. But above all Germany's success has been export-driven: unlike most other big rich economies it has maintained its share of world exports over the past decade, even as China has risen.

This is not-advocates of an active industrial policy please note-thanks to a special genius among German policymakers for picking winners, though businesses have benefited from strong state-supported research institutions. Luck has played a part. Germany has a cheaper-labour hinterland right on its doorstep in central Europe that has helped companies raise efficiency and hold down pay. Meanwhile, German firms happen to produce exactly the things that a booming China wants, from luxury cars to the machinery that enables Chinese factories to be the workshops of the world. So Germany has been a big winner on both the supply side and the demand side of globalisation. The euro also provided a bonanza, thanks to (unsustainable) demand in places like Spain and Greece.

But there has been plenty of skill, too, as our briefing on German business explains (see article). German companies have excelled at seeking out unglamorous but profitable niches, and then focusing relentlessly on being the best. This is particularly true of the *Mittelstand*, the small and not-so-small companies that are the backbone of the German economy. The likes of Koenig & Bauer (which makes printing presses), Leitz (wood-processing machines) and RUD (industrial chains) may not be household names, but they are world-beaters.

Such traditional German virtue is now all the more effective thanks to liberalising reforms of recent years. Under Gerhard Schroder, a Social Democrat who was Angela Merkel's predecessor as chancellor, the so-called Hartz reforms made labour markets more flexible and made work a bit more attractive compared with living on unemployment benefits. And with the loosening of banks' cross-shareholdings, German business is a less cosy and cosseted affair; bosses are freer to cull underperforming operations and to focus on growth.

German businesses also took a gamble during the downturn. With the help of government subsidies they held on to their workers, betting that order books would quickly fill up again. They did, so German companies retained the skills and the manpower to respond quickly to the upturn.

As in Beijing, so in Berlin

All this explains why German leaders can sound a little smug these days. In Davos last week Mrs Merkel invited fellow Europeans to learn from Germany's experience. Follow the German model, the message seems to be, and all will be well.

Others might well usefully emulate German firms' discipline, focus and nurturing of talent, as well as Germany's labour-market reforms and its sound finances. Yet the German model remains flawed in two important ways. First, it is too dependent on foreign demand, reflected in an excessive current-account surplus of 5% of GDP last year, while consumer spending is feeble (one reason why enthusiasm for the government is low too, see article). If every European country followed that example it would be a recipe for a slump. Instead, like China, Germany needs to rebalance its growth, with greater efforts to boost demand at home. More spending in Germany would also help struggling economies elsewhere in Europe. The second blot on Germany's copybook is its poor record in improving productivity. In contrast to Germany's industrial prowess, its bigger services sector remains overprotected and inefficient. More competition and less red tape would help.

Without a rise in domestic spending and progress in productivity, Germany's success will falter. It is encouraging that consumer spending has started to play a bigger role of late. Productivity-enhancing reforms of services should be next. Half a German miracle is not enough.

Index | Leaders

Japanese politics

Opening Japan to the world

Feb 3rd 2011 | from PRINT EDITION

Naoto Kan is proposing the boldest reforms to Japan in decades

ONE measure of Japan's dysfunction is the way its system allows weak politicians to rise to the top then spits out each new prime minister in favour of the next unexceptional man. Up to last June, Japan had had four short-lived prime ministers in as many years, each underwhelming. Naoto Kan, prime minister since then, appeared to be made in the same dismal mould. He has achieved little in his time in power and the media, the opposition and much of his own Democratic Party of Japan (DPJ) are out to get him.

But just as Mr Kan seemed likely to follow his predecessors into the dustbin of history, he has put together a package of proposed reforms more radical than anything attempted during two decades of economic malaise. Even Junichiro Koizumi, the prime minister from 2001-06 who dazzled outsiders and quit while on top, did not attempt anything so bold.

The agenda is almost recklessly ambitious (see article). Mr Kan plans to overhaul social security, giving more credible assurance about the state's ability to pay future benefits. By June he will have plans to raise the consumption (ie, sales) tax as a means of stabilising the finances of one of the world's most indebted countries, in which more government bonds are issued than tax revenues collected. Critics say that would cripple an already beleaguered economy. But, crucially, the plan combines fiscal tightening with measures to stimulate growth. Mr Kan wants Japan to join a radical free-trade area called the Trans-Pacific Partnership, currently being expanded to nine nations, including America. It would mean facing down the farm lobby to remove barriers to some of the planet's most protected rice. Mr Kan's preference for an America-oriented trading block is all of a piece with his efforts to revive the Japanese-American alliance: for the first time since Mr Koizumi, a prime minister is articulating a vision of Japan's place in the world, as well as a response to a rising China.

The proposals make economic sense, which is a novelty in Japan. Yet even in the DPJ, which has strong union backing, they have many vocal critics; and the opposition Liberal Democratic Party (LDP), whose decades in power are largely responsible for Japan's mess, is determined to bring the government down. If it succeeds in blocking this spring's budget, both Mr Kan and his proposals will soon be history.

Take it to the people, Mr Kan

Mr Kan does himself few favours. Though a canny politician, he is a clumsy speaker, with none of Mr Koizumi's razzmatazz. But he has one card up his sleeve: a growing popular frustration with the usual politics.

If he cannot get politicians' support for his reforms, he should, like Mr Koizumi, go over their heads and appeal to urban voters fed up with cossetting farmers and others. At present the public appears ambivalent: polls suggest mixed feelings

on both free trade and a higher consumption tax. However, businessmen and newspapers such as the *Yomiuri Shimbun* (circulation 10m) are overcoming their initial hostility to Mr Kan and supporting his reforms. The LDP's obstructionism will, in the long run, serve only to show that the party hasn't got two constructive ideas to rub together.

Mr Kan may have to call a snap election, with all the risks to his own job and his party that might entail. Voters might yet shy away from more engagement with the outside world. But to prove his reform proposals are the product of conviction and not recklessness, Mr Kan must show courage and leadership. If he gets them through, he will have demonstrated to the rest of the world that Japan is not, in the phrase of one observer, just a fly waiting for a windscreen.

Index | Letters

Letters

On oil sands, inequality, rape, food prices, company morality, Iraq, democracy, the yuan, last week's cover

Feb 3rd 2011 | from PRINT EDITION

Letters are welcome via e-mail to letters@economist.com

Canada's oil sands

SIR - Contrary to your assertion, I take the environmental concerns of David Schindler, an ecologist, relating to Canada's oil sands very seriously ("Muck and brass", January 22nd). Indeed, it was because of such concerns that the Canadian government established an independent panel to assess the existing water-quality monitoring system and accepted the panel's recommendations for improvement in December. The government is fully committed to implementing a world class environmental monitoring system for the oil sands and work to support this commitment is under way.

Peter Kent
Canada's minister for the environment
Gatineau, Canada

The elements of inequality

SIR - You were incorrect in asserting that there is a weak link between inequality and the variety of problems we attribute to it in our book, "The Spirit Level" ("Unbottled Gini", January 22nd). The relationships between national levels of income inequality and mental illness, children's well-being, low social mobility, teenage births, prison rates and trust are all extraordinarily close, with correlations of between 0.7 and 0.9.

Although the connections we show of inequality to life expectancy, infant mortality and homicide are slightly weaker (though still statistically significant with correlations of between 0.4 to 0.6), there are an additional 200 independent analyses that chart the link between health and inequality and another 50 between violence and inequality. Your point about homicide and gun ownership was also wide of the mark: control statistically for gun ownership and the relationship between homicide and inequality becomes slightly stronger. The issue of outliers is a red herring. Raised as a criticism of some of our studies, it is irrelevant to these other analyses.

The politically motivated attacks on our work have been rebutted, not only in a new chapter of ours, but also by others.

Richard Wilkinson
Emeritus professor of social epidemiology
University of Nottingham medical school
Kate Pickett
Professor of epidemiology
University of York

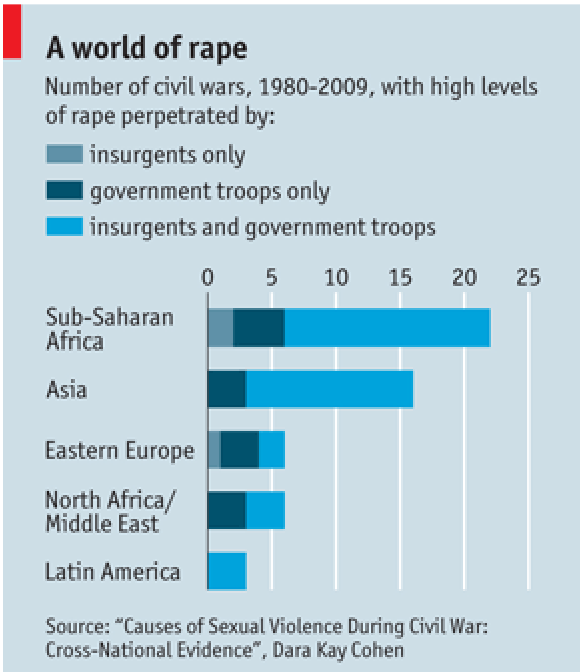
SIR - Your leader on inequality was a total cop-out ("The rich and the rest", January 22nd). Is that because you don't want to antagonise a large part of your wealthy readership? The rise in inequality in America and Europe is clearly the result of the ruinous banking system. Huge amounts of wealth have been sucked out of the economy and into the hands of a few.

Graham Simon
London

SIR - In an article on California's budget woes you stated that the advantage of proposed spending cuts is the "symmetry of pain and incentives" ("Modocians and Alamedans", January 15th). Another way of putting this is to say that government is unable to evaluate the weight of competing claims on the purse strings and merely resorts to splitting the difference under the guise of fairness. This is no way to govern.

Dan Opdyke
Austin, Texas

Combating rape during war



SIR - Your otherwise excellent article on the widespread practice of raping women during conflicts did not mention that in December the United Nations Security Council adopted Resolution 1960, which creates an accountability system to tackle impunity ("War's overlooked victims", January 15th). The idea is to shame armed groups and their commanders into complying with international norms through the publication of an annual list of perpetrators. Persistent perpetrators will be subject to UN sanctions.

This was a breakthrough in Security Council practice. Yet just days after the adoption of the resolution an incidence of mass rape devastated Fizi, in war-torn eastern Congo.

The credible threat of sanctions will be a deterrence. Rape in Fizi has already prompted a rapid investigation by Congolese authorities and the UN, with several suspects now in custody. But bridging the realm of security policy with women's reality remains a challenge. As the UN has long emphasised, the missing link is women's participation and leadership.

Margot Wallstrom
UN special representative of the secretary-general on sexual violence in conflict
New York

Cost benefit

SIR - High food prices are surely good for taxpayers ("The consequences of costly nosh", January 22nd). They must now be close to the point at which farmers can operate profitably without enjoying government subsidies.

Michael Patrick
Gerrards Cross, Buckinghamshire

Moral dissuasion

SIR - In a leader on BP you stated that, "A company's job is to make money for its shareholders legally. Morality is the province of private individuals and of governments" ("How bad is BP?", January 22nd). How do you justify that? We are required to be moral as individuals and when acting collectively as communities. By what precept are we excused from morality when acting collectively for business? There is no theoretical justification for giving companies a complete opt out from our duty to behave morally.

Alec Cawley
Newbury, Berkshire

SIR - Only individuals have morals; a government is "morally good" because of the sum action of individual politicians and civil servants. Companies can be held to the same standard and executives should have some consideration for what is morally right, not just legal. Your position would allow for the deception at Enron (which only becomes an issue if it is uncovered by the law) and the support given by firms such as IG Farben to the Nazis and the legal supply of poison gas to the death camps.

Frank Williams
London

Democracy in Iraq

* SIR - To say, in your leader on the events in Tunisia, that democracy was "forced" on Iraq by the United States may be true, but it is a little disingenuous to leave it at that ("Let the scent of jasmine spread", January 22nd). Surely of greater significance has been the huge turn-out at various elections in Iraq since then.

Indeed, television images of long queues of people voting for the first time despite threats of violence and suicide-bombers (one wonders how many voters in America or Europe would turn out under similar circumstances) has unquestionably done more than anything else to energise democracy movements in the Arab world and create a willingness to challenge the long-held status quo.

Love or hate George Bush and his freedom agenda, it is difficult to argue that it is not that same agenda that is now at the root of what is occurring in Tunisia, Egypt and elsewhere, something which you rightly think deserves "an enthusiastic welcome".

Dominic Pemberton
Singapore

Democratic senses

SIR - It was with interest that I read your discussion of the potential for social networking, silly video-clips and soap operas to dull the democratic inclinations of people who live in authoritarian countries ("Caught in the net", January 8th). Is there any reason to think why they wouldn't dull the same inclinations of citizens of democratic countries every bit as much?

Gavin Dugan
Kuala Belait, Brunei

Another yuan bites the dust

SIR - Your leader on the global reach of China's currency was titled "The rise of the redback" (January 22nd). "Redback" was the name given to the paper currency issued by the Republic of Texas. It rapidly became worthless. Hardly an auspicious nickname for a currency that aspires to be one of the most important in the world.

Gabriel Stein
London

Last week's cover...

SIR - Right back at you across the pond: Sprain, Bad Reportugal, Inkland, Direland, Not-so-Niceland, Greece Trap, Francid, Itally, Wild Turkey, Check Republic, Repoland, Slowvakia. You started this.

Veggo Larsen
Palmetto, Florida

* Letter appears online only

Index | Briefing

The upheaval in Egypt

An end or a beginning?

Feb 3rd 2011 | *CAIRO* | from PRINT EDITION

As Hosni Mubarak fights back, where Egypt's revolt will go, and how far it will spread, are still unanswered questions

Citizens find a voice

IT IS the greatest drama to shake Egypt since the killing of Anwar Sadat in 1981. Huge nationwide protests have challenged the long rule of President Hosni Mubarak, threatening to dislodge him. As yet, the denouement remains unwritten. Will it match Tunisia, where a popular uprising sent another strongman president into exile, toppled his ruling party and opened the way to real democracy? Or will it look like Iran in 2009, where a hardline regime crushed a popular protest movement with iron-fisted resolve?

The protests have left hundreds dead, frozen Egypt's economy, forced a cabinet to resign, brought the army onto the streets and prompted Mr Mubarak to promise reforms. Egypt's tough 82-year-old president, in charge for the past three decades, now says he will go-but only at the end of his term in September, with dignity and with a subtle threat that if he does not get his way, things could turn uglier still. While offering a bare minimum of concessions, he has driven a wedge between millions of protesters who demand change and millions of others who fear chaos and want a return to normal. By February 2nd the two sides were battling each other.

Mr Mubarak has been slow to respond throughout the crisis, but his few appearances have been cleverly pitched. When he finally spoke, after midnight on January 28th, a day when hundreds of thousands across the breadth of Egypt had battled furiously with his police, it was with a husky voice and the petulance of a master betrayed by bungling servants. He said he understood his people's concerns, and as a concession fired his cabinet. But he blamed the unrest on miscreants and agitators, declaring that protests had grown so loud only because he himself had magnanimously granted rights to free expression.

There was something in this. During his rule Egyptians have changed, as has the world they live in. They do speak more freely now, but not only because Mr Mubarak's regime has belatedly allowed the airing of more critical views. New technologies have also made it impossible for states such as Egypt's to retain the information monopolies they once enjoyed.

Mr Mubarak was right in a wider sense, too. It has been on his watch, and in part because of his policies, that Egyptian society has ripened for a sudden outburst that now threatens to blow away his regime. This is true not only because he failed to improve the lot of Egypt's poorest very much, because he throttled meaningful political evolution, or because he let his police humiliate victims with impunity. Some of Mr Mubarak's modest achievements, such as improving literacy, keeping peace with neighbours, extending communications networks and fostering the emergence of a large urban middle class, have also sharpened tensions.

This is one reason why the unrest in Egypt and Tunisia echoes resoundingly across the region. Most of the other countries there, whether monarchies or republics, also have structures that seem increasingly anomalous in the modern world. Since the 1950s the Arab social order has been run by paternalist strongmen, bolstered by strong security forces and loyalist business grandees. Those below have been marginalised from politics, except as masses to be roused for some cause, or as a rabble with which to frighten a narrow and fragile bourgeoisie. They have been treated as subjects, rather than citizens.

But much as in southern Europe in the 1970s, when authoritarian regimes in Portugal, Spain and Greece fell in a heap, or later in Latin America, where juntas collapsed like dominoes, Arab societies are changing in ways likely to provoke a

sweeping political reordering. Because of the extreme violence of a radical fringe, much of the outside world's concern for the region has focused on the rise of Islamism as a social and political force.

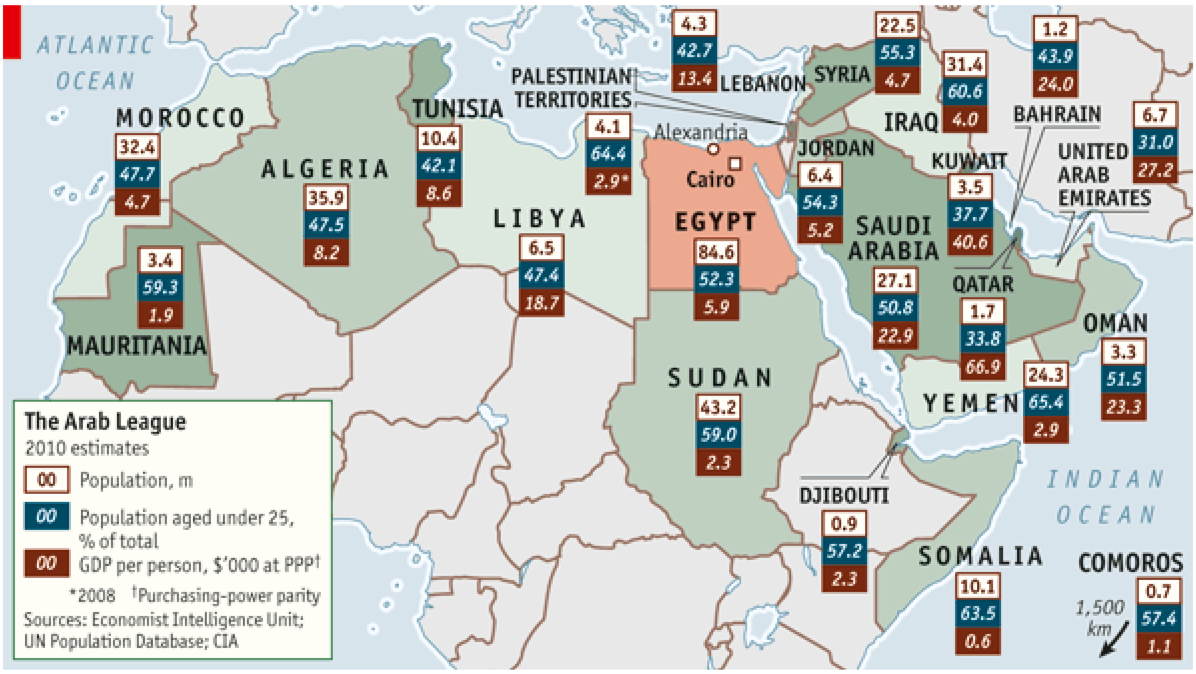
The role of groups such as Egypt's Muslim Brotherhood is important. But it is underlying social changes that affect all, rather than the ideological aspirations of some, that are jamming the mechanics of authoritarian control. Islamists in both Tunisia and Egypt may soon emerge as leading political actors. So far, however, they have taken a back seat.

The bellwether country

Egypt is bigger and poorer than most other Arab states, and not necessarily a model. But it is a more of a bellwether than Tunisia was. It was Egypt's 1952 revolution, ushering in the military-backed authoritarianism of Gamal Abdel Nasser that Mr Mubarak inherited, which inspired similar regimes to emerge, from Algeria to Iraq to Yemen. The direction Egypt chooses now could have a similar influence.

Egyptians of all classes and persuasions have joined today's protests. But in their vanguard, except perhaps in the thickest combat, have been thousands of urban professionals, or university students who hope to be professionals one day. Such people have typically shunned politics, seeing Egypt's stage-managed version as a waste of time. In private they have often complained that they do not feel they own their country, as if it is someone else's private estate.

In the past-for example, in the riots that erupted in 1977 when Sadat's government doubled the price of subsidised bread-it was the poor who forced simple demands on Egypt's government. To prevent another climbdown, Mr Mubarak's regime built its riot squad into a daunting force of perhaps 150,000 well-trained and well-equipped men. It also kept the economy burdened with subsidies, with bread, cooking fuel and public transport priced at fractions of their real cost.



Some 40% of Egyptians still live on less than $2 a day. In recent years, even as Egypt's overall economy has grown apace and more consumer goods have filled even lower-income households, the poor have won little relief from relentlessly rising food prices and sharper competition for secure jobs. Such anxieties have found expression in a growing number of strikes and local protests across the country. Yet in a sense, persistent poverty has helped prop up the regime. "People survive on a day-to-day basis," says a young Cairo lawyer. "They can't go for long without a daily wage and daily bread, so they can't afford to make trouble."

Economic strains have squeezed better-off Egyptians, too, but other factors raised their anger with Mr Mubarak's government to boiling point. Even to a people inured to politics as a farcical pageant, the blatant fakery of parliamentary elections held in November and December, which virtually shut out any opposition players, seemed a lurid insult, added to the injury of Mr Mubarak's apparent plan to foist upon them his son Gamal as their next ruler. Equally lurid are the tales of corruption involving not just rich businessmen but also institutions of Mr Mubarak's state. Dismay over police cruelty has also risen, especially after an incident in June when plainclothes agents in Alexandria beat to death a young internet aficionado, Khaled Said, spawning a Facebook campaign that prompted silent vigils across the country.

That such overlapping concerns seemed unlikely ever to coalesce into political action testifies to the effectiveness of Egypt's police state. This relies less on repression than on co-opting, dividing and, perhaps most important, demoralising

potential challengers. Its other prop has been a political shell-game, whereby Mr Mubarak and his inner circle simply blame any shortcomings on his ministers, and explain repression as a needed defence against menacing Islamists. Despite rising calls for change, bitter quarrels-between Islamists and secularists, conservatives and leftists-have dissipated the energies of Egypt's opposition.

Two new factors seem to have tipped the balance. One was the emergence of loosely related groups pressing for reform, run via the internet by youths of generally secular outlook but no particular ideology. Some coalesced around labour rights. Some promoted human rights or academic freedom. Others were inspired by the appearance on the scene of Mohamed ElBaradei, the Nobel prize-winning former head of the International Atomic Energy Agency, the UN's nuclear watchdog. For such a respected figure to demand an end to dictatorship seemed a breath of fresh air to educated Egyptians. Some of these groups studied other people-power movements, such as Serbia's, and began quietly organising for a similar campaign.

The second factor was Tunisia. It was not only the speed and success of its revolt that convinced many Egyptians that their regime might prove equally flimsy. The most obvious outcome of Tunisia's unrest was the exit of its president, Zine el-Abidine Ben Ali, after 23 years of rule. His flight to exile in Saudi Arabia concentrated Egypt's dissident minds on the one thing they could all agree on: the demand that Mr Mubarak should go.

Revolution's trigger

The Facebook page for solidarity with Mr Said, the victim of police brutality, was what drew the widest audience for the idea of a "day of rage" to be held on January 25th. Yet few among the page's 375,000 followers anticipated the impact this would have. The peaceful crowds that turned out that day were not huge: they numbered in the tens of thousands only in Cairo and Alexandria. By the end of the day, police recaptured Tahrir (Liberation) Square, the symbolic heart of Cairo, in a brutal charge.

But the eruption of protests in nearly all Egypt's main cities at once had proved a stunning shock. As in Tunisia, the regime appeared paralysed at first. It responded solely through security measures, such as cutting off mobile telephones, text-messaging services and the internet. By the time Mr Mubarak decided to speak, three days later, it seemed too late to turn the tide.

Demonstrations on Friday January 28th prompted him at last to break his silence. Protesters were numbered not in tens but in hundreds of thousands, including people from all walks of Egyptian life. In Cairo itself pitched battles between protesters and riot police raged in more than a dozen places, leaving scores dead and thousands wounded. Flames roared through the halls of Mr Mubarak's National Democratic Party in Tahrir Square, where youths danced amid the lingering fumes of tear-gas around the smouldering wrecks of overturned police vehicles. When night fell it was not only the riot police who retreated, beaten and exhausted. The entire uniformed manpower of Egypt's mammoth Ministry of Interior, amounting to perhaps a million policemen, vanished from the country's streets.

Exactly as in Tunisia, their suspiciously complete exit sparked a wave of looting, vandalism and banditry. Rioters breached the walls of several of Egypt's main prisons, freeing more than 20,000 convicts, including several hundred on death row. In the strategic north-east corner of Sinai, along the border with Gaza, local Bedouin blew up police stations and grabbed their arsenals. Reports from Alexandria claimed that some 20,000 police guns had gone missing. The city of Suez, where the toll of casualties was particularly high, fell entirely into the hands of protesters.

The evacuation of police also fanned rumours, backed by reports of security agents engaging in arson and thievery, that the chaos was planned. If so, it had its effect. Despite the hasty organisation of citizen militias, reports of roving bands of thugs terrified many, especially in poorer districts. This kept people at home, away from the demonstrations. As bread became scarce in the shops and salaries went unpaid, many also began blaming the protesters for provoking chaos.

The regime hangs on

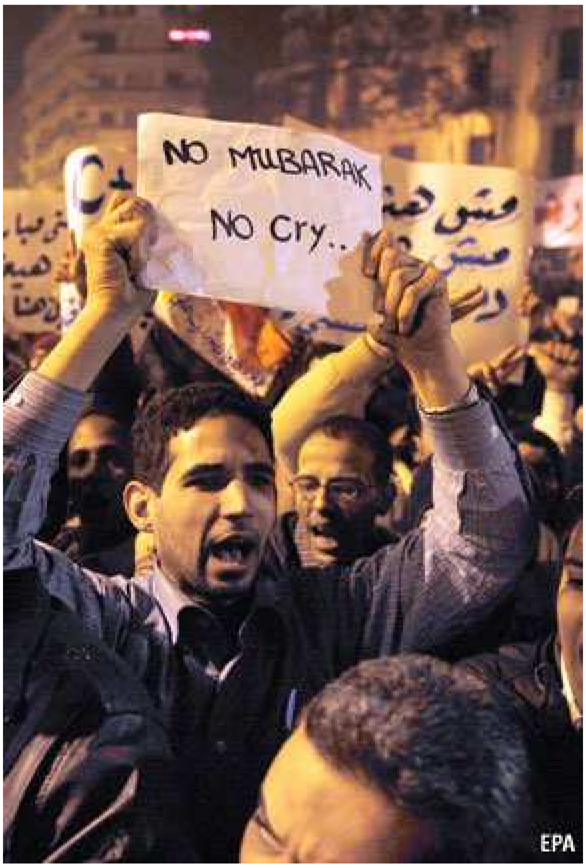
With his police in disgrace, Mr Mubarak sent in his army and decreed what only weeks before would have been seen as a radical change. He appointed as vice-president his dour, dapper 74-year-old intelligence chief, General Omar Suleiman. Since Mr Mubarak had never anointed a deputy, this was widely seen as a first step to his own graceful retirement. He also picked a new prime minister, a former air-force commander, Ahmed Shafik.

The army's intervention has been broadly greeted with relief, particularly since its command declared it would not use force. But Mr Mubarak's other moves did not assuage protesters, now joined by the enraged families of those injured by

police in previous clashes, as well as by the full might of previously hesitant Islamist groups, led by the Muslim Brotherhood.

The cabinet soon sworn in by Mr Shafik retained half the ministers of the previous government, a sign, perhaps, of the difficulty of manning what many perceived as a sinking ship and a signal, to some, that Mr Mubarak was up to his old trick of blaming failings on subordinates, in this case the outgoing ministers. The new vice-president failed to impress with a brief statement, his only public appearance so far. Mr Suleiman said he was open to talks with opposition forces, and would respect court verdicts over challenges to December's election results. This could prove a big concession, since many jurists say the whole vote was fraudulent.

Not surprisingly, protests mounted to a new pitch. Despite the continued suspension of the internet and text-messaging, and the blockage of rail and road links into Cairo, a crowd of nearly half a million crammed into Cairo's centre on February 1st, overspilling Tahrir Square onto adjacent streets and bridges. As many as 100,000 also marched in Alexandria.



Citizens find a voice

Knocked back, Mr Mubarak replied with the skill of a seasoned general. In a masterful speech that night, he declared that he had never intended to run for a sixth term this September, without explaining why he had never revealed this before. He also said he would revise articles in the constitution, inserted by himself, that narrowly restricted the field of presidential challengers. He restated his willingness to negotiate with the opposition, and reasserted his paternal concern for the people. "I am a military man and it is not my nature to abandon my duties," he said gravely. "I have defended the soil of Egypt and will die on it, and be judged by history."

To protesters camped in Tahrir Square, who had spent days screaming for his departure, this was again far too little, too late. But many other Egyptians, particularly the elderly and the poor, saw it as a dignified way out of the impasse. Amid a backlash of pro-Mubarak sentiment the next day, foreign newsmen were attacked by Egyptians accusing them of plotting to undermine stability. In Alexandria and Cairo large pro-Mubarak mobs of youths, some reportedly fortified by plainclothes thugs and paid criminal stooges, tried to storm the protesters' camps, leading to melees in which dozens were injured.

Such dirty tactics, accompanied by calls from the army, which has remained scrupulously neutral, for the protests to end, suggest that Mr Mubarak's regime believes it can complete what appears to be a well-devised script. Middle-class protesters will be frightened back to their homes, and most ordinary Egyptians relieved to see the unrest end. The president's opponents will be able to declare that they have won key reforms. But the regime will remain in charge, controlling the pace of change.

Whether this will succeed in restoring stability remains to be seen. Egypt has now become starkly polarised. The fury against Mr Mubarak felt by many has only increased. Despite numbers thinned by the defection of those fearful of getting hurt, the anti-Mubarak protesters may still be able to mount mass protests, perhaps after Friday prayers. The Muslim Brotherhood has declared that it will not negotiate with the government until Mr Mubarak steps down. Mr ElBaradei has described pro-Mubarak demonstrations as criminal acts by a criminal regime.

From pharaohism to democracy

As Egypt's powerful state regroups its forces and continues to capitalise on fears of insecurity, Mr Mubarak's men may have their way. Still, even within his army, which has so far remained loyal to the president, many may believe that only Mr Mubarak's departure can calm Egypt's streets. The president could possibly announce an early retirement on health grounds. But if there is one quality Mr Mubarak has shown during his three decades of rule, it is stubbornness.

Whatever the outcome, it is already clear that Egyptian society as a whole has evolved. Despite the ugly clashes of recent days, the change has mostly been peaceful. Egyptians have graphically demonstrated that they will no longer accept the old rules. They are moving, in the words of Fahmi Huweidi, a popular columnist sympathetic to the Muslim Brothers, from pharaohism to democracy.

Even if protests fizzle for the time being, a certain pride of reclaiming possession was vividly in evidence. Protesters in the notoriously trash-strewn megalopolis of Cairo swept and tidied the squares they occupied, and ordinary Egyptians cheerfully and quite efficiently directed traffic or joined neighbourhood patrols in the absence of police.

In the posh district of Zamalek, one volunteer manning a citizens' roadblock at night gleefully displayed a photo he had taken with his mobile phone, showing his patrol demanding to see the driving licence of a police officer whose car they had stopped. In such ways, Egyptians have begun to establish themselves as citizens of their own country.

Index | Briefing

Jordan's monarchy

Nervous times ahead

Feb 3rd 2011 | *DHIBAN* | from PRINT EDITION

The king is catching a harsh wind, too

SOMETHING strange is happening in a usually quiet corner of the Arab world, often mocked as "the Hashemite kingdom of boredom". A group of former generals and intelligence officers, who served Jordan's king in the security apparatus that was counted on to clobber street protests, have themselves been staging unlicensed demonstrations.

When rallies erupted in January, they were at first largely tribal affairs in the impoverished Bedouin villages where King Abdullah recruits his forces. But as they spread to Amman, the capital, and to other towns, other disgruntled Jordanians, including Islamists, teachers and leftists, have jumped on the bandwagon.

As the protests spread across classes and towns, demands for better living standards acquired a sharper political edge, aiming at the government and even the king himself. Dissident generals and Islamists are asking the king to rescind parts of the 1952 constitution, which enshrines his right to hire and fire unelected prime ministers. As in Tunisia and Egypt, disparate groups have joined forces. The protests have been peaceful. But, amid threats of civil disobedience and nationwide strikes, Jordan looks less secure as one of the West's favoured buffer states in the region.

In response, the king at first increased the meagre government pensions and salaries by 20 dinars ($28) a month; few of the beneficiaries sounded grateful. Then, on January 31st, he sacked his government, a time-honoured Jordanian device for fobbing off protest. The new prime minister, Marouf Bakhit, comes from the same Bedouin and military stock as most of the protesters. In a previous stint as prime minister, he placated his Bedouin troops by raising their salaries. Muhammad Sneid, who organised the first rural protest in the town of Dhiban, cheered the appointment of one of his own.

The Islamists, by contrast, have not been mollified. After three hotels in Amman were bombed by jihadists in 2005, Mr Bakhit led the crackdown which, among other things, saw the Islamists' representation in parliament drastically reduced in rigged elections in 2007. The grumpy generals, however, seem readier to give Mr Bakhit a chance. In a sign of division, they scolded the Islamists for waving the green flags of Islam alongside Jordanian ones.

In any event, the new prime minister is unlikely to dampen Jordanians' desire for faster economic and political progress. The king has talked of political reform for 12 years, retaining absolute power even as the kingdom's economy has faltered. To pay for a national debt that has tripled in a decade, he has cut services and subsidies and raised taxes. "It took north Africa's explosion to make him take notice," says Adnan abu Odeh, who once ran the royal court and was one of the protesters.

Criticism of corruption has grown increasingly personal. The king is widely derided for spending too much time abroad, allegedly buying birthday presents, such as a yacht for Queen Rania. Tales abound of favoured bureaucrats becoming rich.

The sour mood is notable in the south, where the intimate alliance the Hashemites enjoyed with the local tribes has begun to fray. The bunting and obsequious banners that recently marked the king's official birthday were rarer than in previous years. "We feel we're a minority in our own country," says Mr Sneid. Referring to the business elite which is said to have the king's ear, he continues: "We feel they've captured the government and we're working for foreigners."

Index | Briefing

Worried Israel

Bad news for the Jewish state

Feb 3rd 2011 | *JERUSALEM* | from PRINT EDITION

Egypt's upheaval is rattling the Israelis

Chaos could come this close

THE Egyptian upheaval is seen in Israel as so ominous that, for once, government ministers are largely heeding an instruction by the prime minister, Binyamin Netanyahu, not to talk about it in public. Mr Netanyahu reflected the nation's anxieties when, after days of silence, he issued a careful statement urging that the Israel-Egypt peace treaty should be preserved and welcoming "the advancement of free and democratic values in the Middle East".

He cautioned, though, that "extremist forces" must not be allowed to "exploit democratic processes to gain power and to promote anti-democratic agendas, as happened in Iran and elsewhere". "Elsewhere", as everyone understood, meant the Gaza Strip, where the Islamist Hamas movement won elections in 2006 and, after being prevented from forming a government in both parts of the Palestinian territories, took power by force the following year.

Mr Netanyahu's sentiments, apart from encouraging Western sobriety, seemed designed to block off awkward thoughts being expressed here and there in the Israeli peace camp. Some peaceniks argue that Israel is another Middle Eastern country directly threatened by the wave of democracy emanating from Tunisia, sweeping Egypt and lapping at Jordan. Mr Netanyahu this week extolled his country as an island of stability and democracy. But Israel, note the peaceniks, rules a large and disaffected population of Palestinians who are learning on their televisions how to topple tyranny. On the West Bank the Palestinians are held down with the help of the Palestinian Authority's police. But some Israelis ask whether Palestinian police units-or Israeli security forces, for that matter-would really crush a mass democracy movement live on world television, after Egypt's powerful army has set a precedent of forbearance.

The Egyptian cataclysm slots into Israel's endless national debate, much as Anwar Sadat's assassination did in 1981, when Mr Mubarak assumed power. Then, as now, the Israeli right refused to recognise that the separate peace signed by Israel and Egypt in 1979, and Israel's continuing occupation of the Palestinian territories conquered in 1967, rendered the Israel-Egypt relationship both parlous and unpopular among large sections of Egyptian society and in most of the Arab world.

Relations with the Arabs at large brightened after the Oslo agreement between Israel and the Palestinians in 1993. But they quickly clouded again when that agreement foundered under Mr Netanyahu's first government, from 1996-1999. Mr Netanyahu's Likud party, which leads today's ruling coalition, still ignores the flaws in the treaty, talking of a "cold peace" and blaming Egypt's government for not warming it up.

The question now is whether the fall of Israel's most powerful regional ally will shock the Israeli government out of its apparently confident belief that the occupation of the Palestinian territories can be sustained indefinitely. Or will Mr Netanyahu instead "batten down the hatches", thus making a deal with the Palestinians still more unlikely?

Even if a new government in Egypt were to re-endorse the treaty, Israel's defence spending will probably rise, as its planners contemplate the now-less-hypothetical threat of a war in the south. After all, if the Muslim Brothers become part of an emerging new order in Egypt, they are certain to be more helpful to Hamas, which is a branch of their movement.

Israel would probably win again, if it had to, on the battlefields of Sinai. But could it win against masses of peaceful protesters in town squares across the West Bank, Gaza and Israel too, demanding political rights for Palestinians? It is a question that makes many Israelis queasy.

Index | Briefing

The American conundrum

When allies tumble

Feb 3rd 2011 | *WASHINGTON, DC* | from PRINT EDITION

The Obama administration comes off the fence, but the future looks grim

Hillary trapped in a minefield of words

AUTHORITY forgets a dying king. So said Tennyson. America, on the other hand, was in no rush at the start of the fast-moving changes in Egypt to give up on Hosni Mubarak. Soon after the demonstrations began, Vice-President Joe Biden called Mr Mubarak an ally and Hillary Clinton, the secretary of state, said his government was "stable". Not until the game looked almost up for Egypt's president did the Obama administration begin to call for an "orderly transition". And not until the evening of February 1st did Barack Obama himself declare, after a phone call to Mr Mubarak, that the transition "must be meaningful, it must be peaceful, and it must begin now."

The American reluctance to move faster was not-or at least not only-a case of dithering. As the Mubarak regime's patron and armourer, the Americans have had a tricky balance to strike. They could not be seen to abandon a longstanding ally at the first whiff of tear-gas. That would scare other loyal Arab allies, such as the kings of Jordan and Saudi Arabia, and risk ruining relations with Egypt if Mr Mubarak were somehow to hang on. Nor, though, could Mr Obama be seen to take the dictator's side against the people. That would offend American principles and hurt relations with a successor regime if the people prevailed. Hence the public fence-sitting: Mr Mubarak is our ally, but we deplore violence and are on the side of "reform", was the official State Department line as the demonstrators thronged Cairo.

Mr Obama has also been careful to say, in public at least, that Egypt's future is for Egypt, not America, to decide. Yet the Americans wield influence over a regime that depends on them for $1.5 billion a year of aid and almost all its modern weaponry. It is safe to assume that the main job of Frank Wisner, the former ambassador Mr Obama sent to talk to Mr Mubarak, was to give the Egyptian president his marching orders. As to who comes next, the Americans know and like Omar Suleiman, the intelligence chief now appointed vice-president. He has been the chief behind-the-scenes emissary between Egypt and Israel. But here, too, America has watched its words, since an overt endorsement might be used to paint Mr Suleiman as an American puppet.

Still, deft handling of the immediate crisis cannot disguise the catastrophic blow the regime's collapse might deal to America's posture throughout the Middle East. Mr Mubarak's immediate value to the superpower is summarised conveniently in a 2009 State Department cable disclosed by WikiLeaks. It says that America's strong military relationship with Egypt has supported peace between Egypt and Israel and ensured critical access to the Suez Canal and Egyptian airspace for American military operations. Mr Mubarak and Egypt's military leaders, the cable says, see America's aid to Egypt as "untouchable compensation" for making and maintaining peace with Israel.

The danger to the peace with Israel will be America's first strategic worry if the present regime were to collapse after Mr Mubarak's departure. Egypt has played what the Americans have seen as a vital role in keeping Hamas bottled up in the Gaza Strip and slowing the flow of Iranian weapons to the radical Islamist movement. If a new regime were to do nothing more than open its border to Gaza-Mohamed ElBaradei, for one, says the siege should be lifted-American and Israeli policy towards the Palestinians would be severely disrupted. But things could become very much worse than that.

If, as seems likely, a new regime were to seek popularity by hardening its stance towards Israel, the wider balance of power in the region might shift too. At worst, in American eyes, the biggest and oldest Arab nation might drift out of America's orbit and seek new friends in the so-called "resistance" alliance of Iran, Syria, Hizbullah and Hamas. Mr

Obama's painstaking efforts to build a regional alliance to contain an Iran suspected of seeking nuclear weapons might then be left in disarray.

The greatest test

Some bigger consequences if America were to "lose" Egypt are harder to quantify. If mighty Egypt turns its back on America, how long before old allies such as Jordan, Morocco and Saudi Arabia fall too, or turn elsewhere for their protection? What chance then would the United States have of keeping its foothold in Iraq, where it has spent so many American lives and dollars? Might Egypt, which was so helpful during George Bush's presidency in "rendering" suspected terrorists, itself become a base for al-Qaeda? Ayman al-Zawahiri, the organisation's number two, is an Egyptian-as was Muhammad Atta, the lead hijacker on September 11th, 2001.

With such vital American interests at stake, Mr Obama's refrain that Egypt needs an "orderly transition" takes on a clearer meaning. This is the biggest foreign-policy crisis of his presidency so far. It is, as he says, Egyptians who will in the end decide Egypt's fate. But in the weeks ahead America will be pulling on every lever it has, especially its financial aid and links to the armed forces, to maximise continuity and guide Egypt towards a future both countries believe they can live with.

Index | Briefing

Regional reverberations

Variously vulnerable

Feb 3rd 2011 | *KHARTOUM AND SANA'A* | from PRINT EDITION

Who's next?

JUST about every leader of the Arab League's 22 countries (all of them dictatorships, bar those of **Lebanon**, **Iraq** and the **Palestinian territories**, a trio of flawed exceptions) has been rattled by events in **Egypt** and **Tunisia**. But some are more vulnerable than others. The latest Arab guessing game is: "Who will be next?"

Poor performance

The Arab League

Country	Ruler	Date of accession	2010 world ranking for: democracy*	corruption†	press freedom‡
Algeria	Abdelaziz Bouteflika	1999	125	105	141
Bahrain	King Hamad bin Isa al-Khalifa	1999	122	48	153
Comoros	Ahmed Sambi	2006	127	154	102
Djibouti	Ismael Omar Guelleh	1999	154	91	159
Egypt	**Hosni Mubarak**	**1981**	**138**	**98**	**130**
Iraq	Nuri al-Maliki	2006	111	175	144
Jordan	King Abdullah II	1999	117	50	140
Kuwait	Sheikh Sabah al-Ahmed al-Sabah	2006	114	54	115
Lebanon	Najib Mikati	2011	86	127	115
Libya	Muammar Qaddafi	1969	158	146	193
Mauritania	Muhammad Ould Abdelaziz	2009	115	143	20
Morocco	King Mohammed VI	1999	116	85	146
Oman	Sultan Qaboos	1970	143	41	153
Palestinian territories	Mahmoud Abbas/Ismail Haniyeh	2005/2006	93	*Not ranked*	181
Qatar	Sheikh Hamad bin Khalifa al-Thani	1995	137	19	146
Saudi Arabia	King Abdullah	2005	160	50	178
Somalia	Sheikh Sharif Ahmed	2009	*Not ranked*	178	181
Sudan	Omar al-Bashir	1989	151	172	165
Syria	Bashar Assad	2000	153	127	178
Tunisia	Mohamed Gannouchi	2011	144	59	186
United Arab Emirates	Sheikh Khalifa bin Zayed al-Nahyan	2004	148	28	153
Yemen	Ali Abdullah Saleh	1978	146	146	173

Sources: Economist Intelligence Unit's *Democracy Index*; Transparency International's *Corruption Perceptions Index*; Freedom House's *Freedom of the Press*; *The Economist*

Out of: *167 †178 ‡196 countries or territories

The most obvious candidate is the president of **Yemen**, Ali Abdullah Saleh, who has run the Yemeni republic in the north since 1978 and the union of north and south since 1990. He faced severe pressure even before Tunisia's turmoil, with tribal unrest in the north, separatism in the south and al-Qaeda in the east and elsewhere.

In the past week or so he has faced unprecedented street protests in Sana'a, his capital, organised by a loose alliance of internet-linked students, Islamists and others, known as the Joint Meeting Parties. On February 2nd, echoing Egypt's Hosni Mubarak, he said he would not run in the presidential election, due in 2013. But the protesters, announcing a "day of rage" on February 3rd, told him to go immediately.

Mr Saleh is a consummate manipulator of Yemen's complex tribal society and still has the loyalty of the armed forces. His early downfall cannot be presumed. And if he went, chaos could well ensue.

Sudan's president, Omar al-Bashir, held responsible for "losing" South Sudan (see article) and for failing to raise living standards, is another candidate. In the past few days jobless youths have clashed with police on the streets of Khartoum, his capital; at least 70 were arrested and one killed. Riot police and plainclothes security men have ringed universities.

The protesters focused on rising living costs, partly caused by the government's withdrawal of subsidies for petrol and sugar-a ticklish issue across the Arab world. The leaders of **Jordan**, **Algeria** and **Libya** have all lessened taxes on imported food or lowered the prices of staples for fear of provoking unrest.

The leaders of the most repressive Arab states, such as Libya's Muammar Qaddafi and **Syria**'s Bashar Assad, seem determined to clamp the lid firmly down; protesters, some of whom may be stirring, would get very short shrift. But if the lid blew off, the result would be bloody.

Morocco's king seems pretty safe. Least vulnerable of all are the boiling-rich monarchs of **the Gulf**, whose largesse generally keeps their small populations quiet. But **Saudi Arabia**, by far the beefiest and most populous of the Gulf states,is a separate case. With a burgeoning, better-educated middle class, a royal family facing an awkward succession soon and al-Qaeda still plotting against it, its monarchy may be safe for now-but perhaps not for ever.

China's reaction

Build a wall

Feb 3rd 2011 | *BEIJING* | from PRINT EDITION

The Year of the Rabbit starts badly

THE Chinese Communist Party's Publicity Department (or Propaganda Department, a closer rendering of the Chinese) is adept at controlling news from abroad that might inflame sentiment at home. As communism collapsed in Eastern Europe 20 years ago, it kept all but the barest news out of the domestic media, jammed foreign broadcasts and ordered vigilance over fax machines.

In response to the unrest in Egypt, the department has apparently instructed the Chinese media to use only dispatches sent by the official news agency, Xinhua, and either to bury news of events there or play up aspects that show the costs of turmoil. Reporting the travails of stranded Chinese tourists, or the government's noble attempts to rescue them, is fine, but sympathy with the protesters is taboo. The department's instructions to the media are, as usual, a secret, but their effect is clear.

The party has also been busy trying to control the internet. Twitter has been blocked in China since 2009, but home-grown versions are hugely popular. Anyone trying to follow postings by users with an interest in Egypt, however, might struggle. Merely searching for the word "Egypt" in Sina Weibo, one of China's leading Twitter-like services, produces a warning that "according to the relevant laws, regulations and policies, the search results have not been displayed". On Baidu, a big news portal, a prominent list of "hot search terms" includes "the return of compatriots stranded in Egypt", but nothing else.

Chinese news reports have briefly mentioned the disruption of internet and mobile-phone services in Egypt. They have not, however, discussed China's pioneering use of such techniques to impede the mobilisation of crowds. Use of the internet and mobile phones for international calls and text-messaging was cut off for months in the far-western region of Xinjiang after ethnic clashes there in 2009.

On February 1st the party's main mouthpiece, the *People's Daily*, relegated Egyptian politics to five terse paragraphs on page three but published a full page of articles under the headline, "The Internet is Warming the Whole of Society". The internet, one scholar was quoted as saying, is a "great promoter of social change". The party knows that all too well.

Index | United States

Health care

Dead or alive?

Feb 3rd 2011 | *WASHINGTON, DC* | from PRINT EDITION

Another blow for Barack Obama's health reforms is struck by the courts

"THE federal health-care law is dead," exulted John Van Hollen, Wisconsin's attorney-general. It was killed off, in his view, on January 31st, when a judge in Florida found one of its main provisions unconstitutional and threw the whole law out. In fact, its injuries may not be as terminal as Mr Van Hollen implies. Judges in other courts have upheld it, the federal government has vowed to appeal the Florida ruling, and Congress may yet amend the law anyway. But the sweeping judgment will disrupt the implementation of the health reforms that are the main achievement of Barack Obama's presidency. That in turn will keep the subject, which has dominated American political life for the past two years and contributed to the Democrats' dire showing in November's election, in the public eye-much to the Republicans' delight.

The ruling marks the federal courts' fourth tilt at the health-care law. Two other judges, in Michigan and Virginia, have given it their blessing; a third, also in Virginia, faulted the same provision as the one in Florida-the "individual mandate", which obliges everyone to obtain health insurance-but voided only that part, leaving the rest intact. Roger Vinson, the judge in Florida, went much further. Not only is the individual mandate unconstitutional, he reasons, but it is also too integral a part of the law to be excised, so the whole 2000-page tome must be scrapped. Moreover he said that his ruling should have immediate effect, thereby relieving the 26 states that had joined the lawsuit of their obligation to implement the law.

Some of those states, including Wisconsin, have already indicated that they will stop work on the law. Florida has written to the Department of Health and Human Services (HHS), which oversees the law, to say it no longer needs a $1m grant to help set up the necessary bureaucracy. Others, such as Georgia, have suggested that they will continue to follow the law until its constitutionality is settled once and for all. In any case, the states' main responsibilities under the law-to set up exchanges where residents can buy insurance and to expand health-care provision for the poor-do not begin until 2014.

There is one area where the ruling could have an immediate effect, however. The law bars states from tightening their eligibility requirements for Medicaid, the health-care scheme for the poor that they administer on behalf of the federal government. Several states that were party to the lawsuit complain that they are so hard up that they have no choice but to trim their Medicaid rolls. One, Arizona, has already asked the HHS for a special waiver to drop coverage for 280,000 people. Should it and other such states decide that the health-care law no longer has any force, they could start to jettison Medicaid patients without permission.

The government could try to rein in wayward states by seeking a stay on the ruling while an appeal is heard. Few observers imagine the relevant appeals court, in Atlanta, would withhold one. Whether the court, one of the most conservative in the country, will look kindly on the expansive vision of government embodied in the health-care law, however, is much less certain. Whatever the outcome, the case, along with the many other legal challenges to Obamacare, seems certain to wind up in the Supreme Court. But that will take at least a year, perhaps more.

Frank Pasquale, a professor of health-care regulation at Seton Hall University's law school, sees scope to challenge Mr Vinson's findings. The judge was unusually florid in his arguments. He made colourful references to libertarian websites, broccoli and the government's takeover of GM. There was lots of discussion of the intentions of the Founding Fathers, and relatively little reliance on boring old legal precedent. One of the precedents Mr Vinson did dwell on, from 1935, has since been widely discredited, Mr Pasquale points out. In general, he argues, even the more conservative members of the Supreme Court have taken a more generous view of the federal government's power to regulate commerce in recent years.

But political prejudice already seems to be impinging on the lower courts' consideration of the health-care law: the two judges who have given it the nod were both appointed by Democrats, whereas the two who have found fault with it were both appointed by Republicans. The Supreme Court split on partisan lines over the disputed presidential election of 2000, and might well do so again. In that case, health-care reform faces a much more uncertain future: five of the nine justices are Republican appointees, although one-Anthony Kennedy-is of an independent bent. His, many observers reckon, will be the deciding vote.

The Obama administration, for its part, seems in no hurry for the Supreme Court to consider the law, presumably in the hope that it might gain broader public acceptance by the time it does. In the meantime, the Republicans in Congress are making hay. One of the first acts of the new Republican majority in the House of Representatives was to repeal the reforms. A similar drive by the Republican minority in the Senate failed on February 2nd.

The Democrats in the Senate are not rejecting all changes to the law, however. Those at risk of losing their seats in next year's election are striking centrist poses by proposing tweaks. Debbie Stabenow of Michigan, for example, put forward an amendment that would reduce the paperwork involved for small businesses, which passed even as repeal failed. Others are suggesting that states be allowed to opt out, or looking for fixes in case the Supreme Court rejects the individual mandate. Health-care reform, or at least the debate about it, could not be more alive.

Filibuster reform

Putting their knives away

Feb 3rd 2011 | *WASHINGTON, DC* | from PRINT EDITION

The Senate shies away from big reform

FACED with "a partisan knife fight", explained Claire McCaskill, a Democratic senator from Missouri, the Senate balked. In the name of efficiency several of her colleagues had suggested doing away with or watering down the filibuster, which allows any senator to block almost any measure, unless overruled by at least 60 of the chamber's 100 members. Republicans saw efficiency as code for unfettered rule by the slender Democratic majority of 53. Worse, the change was

to be adopted by a suspect procedural manoeuvre. In the end, the proposed reform (like so many bills threatened with a filibuster) was replaced with something much more innocuous.

Just as the row about filibuster reform was about to come to a head, on January 27th, the majority and minority leaders unveiled an alternative package of tweaks to Senate procedures and powers that both had agreed on. Senators will no longer be able to prevent consideration of bills or nominations to government jobs anonymously-a practice known as "secret holds". They will also surrender the power to vet presidential appointments to some 400 of the 1,200 posts currently subject to their nod. One particularly vexatious stalling tactic, to insist that all amendments be read aloud on the Senate floor, will be banned provided the amendments in question have been publicly available for three days. Both sides disavowed the notion of changing the Senate's rules using the "nuclear option" advocated by the filibuster's foes: by a simple majority vote at the beginning of a new Congress, rather than the 67-vote threshold observed during normal business. The Democrats also promised to allow the Republicans more opportunity to propose amendments.

All of this, says a staffer for Tom Udall, one of the filibuster's fiercest critics, amounts to the biggest shake-up of the Senate's rules since the 1970s. None of it would have come about, she adds, had Mr Udall and others not been clamouring for more dramatic changes.

But there is still a long way to go. The banning of secret holds, after all, does nothing to prevent the public variety. Last year the unabashed Mary Landrieu, a Democratic senator from Louisiana, kept the appointment of a new budget director on ice for months in protest at the administration's moratorium on offshore oil drilling. Richard Shelby, a Republican, briefly put almost all pending nominations on hold in pursuit of several pet projects for his state, Alabama.

The reduction in jobs requiring Senate approval, meanwhile, should decongest the chamber's schedule a bit. But the junior positions in question do not normally cause much controversy, nor does leaving them vacant do much damage. By contrast, nominations of judges, a perpetual source of discord and a worrying drag on the courts, are not part of the deal.

Nor have more radical Democrats given up hope of reforming the filibuster. Their proposals earned over 40 votes, and they have vowed to continue canvassing. Tom Harkin of Iowa, who has agitated against the filibuster since 1995, is now talking about seeking judicial review-in one of those understaffed courts, presumably.

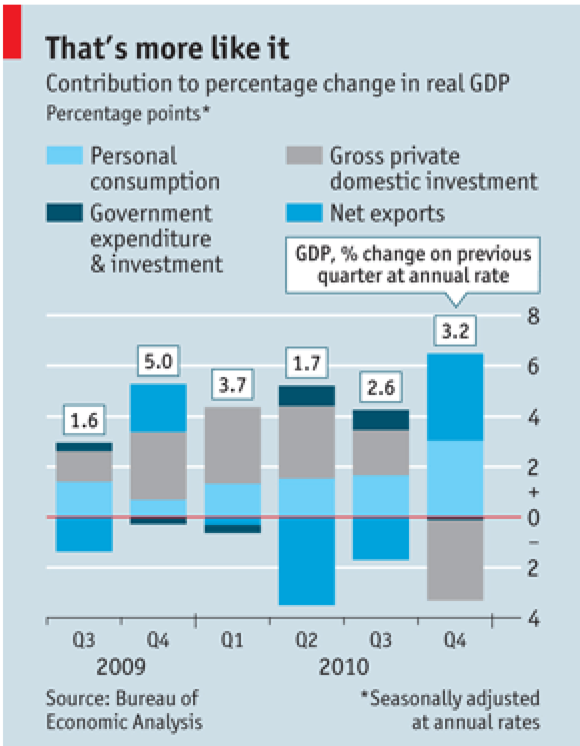
Index | United States

The economy

Turning the corner

Feb 3rd 2011 | *WASHINGTON, DC* | from PRINT EDITION

A surge of good omens, apart from jobs



RECOVERY has long seemed a transient guest in America. As recently as last summer, a return to falling output seemed a real possibility. On the surface, the latest GDP figures hardly suggest a decisive turn for the better. According to preliminary estimates of fourth-quarter output, the economy expanded at a 3.2% annualised pace, up a bit from a 2.6% rise in the third quarter, though below economists' forecasts. But a closer look suggests that America's economy may at last be approaching something like strong growth.

At 3.2%, the rise in GDP is disappointing for this stage in a recovery. At a similar point in the early 1980s business cycle, annual growth was roaring ahead at 7.1%, and employment was growing rapidly. Now the American economy is running a full $800 billion (5.7%) short of its potential output, and only in the fourth quarter did GDP finally pass its pre-recession peak. But the headline figures are misleading.

As demand grew late in 2010, consumers purchased more than the economy produced. This meant that inventories shrank. On the national accounts this inventory decline shows up as a 3.7 percentage-point drag on total growth, but is also evidence of strong demand. Real final sales-GDP minus inventory changes-surged ahead at a 7.1% annual rate in the last three months of the year. That was the best quarterly performance since 1984, and up substantially from the meagre 0.9% annualised growth in the third quarter.

Economists are cautious. Inventory declines often go with a drop in imports, and the fourth quarter was no exception. The drop in inventory may presage surging imports as firms restock, meaning that growing demand will simply flow abroad, as has often happened. But there are signs that America's persistent trade imbalances are eroding. America's trade deficit shrank for a third consecutive month in November, as exports grew faster than imports.

In late December, the dollar resumed a decline that has been interrupted only by periodic European crises. A weakening dollar reduces the cost of American goods abroad, supporting export growth. A yawning trade deficit with China persists, and the dollar's fall against China's currency, the yuan, proceeds at a glacial pace. But China's soaring wages and prices are undermining its international cost advantage.

Early signs indicate even better conditions in 2011. America's first manufacturing report of the year showed activity accelerating to the fastest level since 2004. Markets have shrugged off international crises to attain highs last seen in June 2008, before the Lehman crisis. For the first time in this recovery, the underlying economy looks independently strong, unaided by government stimulus or cyclical factors.

It is too soon to declare victory, though. After two years of stimulus, federal government spending has now joined state and local budgets as a drag on growth. This trend will continue; future growth will come despite government cuts rather than because of government support. Financial shocks may yet rattle the world in 2011. And rising commodity prices could pose the biggest threat of all. Costly commodities will deter the resurgent American consumer, and may also spook the Federal Reserve into withdrawing monetary support at a faster pace.

Meanwhile, the weakness in labour markets continues. Private-sector firms added 187,000 workers in January, according to a private employment report, following a gain of 247,000 in December. These figures, up from an average increase of only 52,000 over the previous six months, may signal a thaw in hiring conditions. But employment is still scarcely 1% above its post-recession lows. Until Americans can count on a reviving economy to produce new jobs they will be sceptical about recovery, and growth will remain vulnerable.

Index | United States

The Republican race

Reading the tea leaves

Feb 3rd 2011 | *AUSTIN* | from PRINT EDITION

Is Barack Obama's ambassador to China planning to run in 2012?

TWO years ago Barack Obama picked Jon Huntsman, the governor of Utah, to serve as America's ambassador to China. It was hailed as a clever stroke. Mr Huntsman is young and personable, a success in business and politics, fluent in Mandarin-and Republican. Not only could Mr Huntsman be ambassador to China, he could stay well away from politics until after 2012.

Oops. This week Mr Huntsman announced his resignation. That means he will be free to explore a presidential run, and he has done nothing to dispel the impression that he will do so. But is that really his plan? The primary field for 2012 is overcrowded, and Republicans are overheated. During the Chinese president, Hu Jintao's, visit, with rumours bubbling, Mr Obama fielded a question about his ambassador. "I'm sure that him having worked so well with me will be a great asset in any Republican primary," said the president. The next election, in 2016, looks more promising. The mood may well have settled, and on issues where Mr Huntsman is moderate, such as gay rights and climate change, the country may have cooled off. It may even feel more tolerant of Mr Huntsman's Mormonism.

Others suggest that Mr Huntsman may want to run next year purely to lay the groundwork for a run in 2016. Sometimes candidates can gain from a loss. John McCain, for example, entered the 2008 race as the front-runner largely because of his honourable failure in 2000. If Mr Huntsman runs creditably but unsuccessfully next year, he might then enter the 2016 cycle with a higher national profile. However, that strategy only works if Mr Huntsman thinks Mr Obama is going to win re-election. If a Republican is elected in 2012, there will probably be no 2016 Republican primary.

And if Mr Obama does win re-election, it may turn out to have made more sense for Mr Huntsman to stay put. He has worked for the administration; there is no denying it. Republicans who dislike that will not forget. But if Mr Obama ends his second term with decent ratings, Mr Huntsman would be sitting pretty. The pendulum effect of American politics would favour Republicans, and Mr Huntsman would be well-placed to win support from moderate Democrats who can overlook his religion. Time may yet show that he should have doubled down on the gamble he took when he accepted Mr Obama's offer.

Index | United States

Virginia's next Senate race

The rematch

Feb 3rd 2011 | *RICHMOND* | from PRINT EDITION

Will Virginians vote again for the man they chucked out before?

It's not over

A VERY rare feat is being attempted by George Allen in Virginia. He is trying to win back in 2012 the Senate seat he narrowly lost to Jim Webb, a Democrat, in 2006. Since senators began to be directly elected in America a century ago-before that, they were picked by state legislatures-only 16 have recovered their old jobs. Virginia has never recycled a loser.

Mr Allen is hoping Virginians will forget that they tossed him overboard because he hurled an obscure racial epithet, "macaca", at an Indian-American student who was tracking him for Mr Webb, and then made a dog's dinner of handling the row that ensued. He is also gambling that Virginians are so angry with another Democrat, Barack Obama, who carried the state in 2008, that they will overlook Mr Allen's baggage, support a Republican for president and, in the process, elect a Republican senator-perhaps one of the four the party needs to take back the Senate.

But Mr Allen's embarrassing behaviour in 2006 is still fresh in Virginian minds. So is his reliable voting record in the Senate for George Bush. Those votes recast his image from pugnacious anti-tax conservative to big-spending establishment Republican. Mr Allen, facing a primary challenge from Jamie Radtke, a tea-partier who briefly worked for him when he was governor 16 years ago, is now trying to explain away his support of ballooning deficits, unpaid-for wars in Iraq and Afghanistan and a drug benefit for the elderly financed with debt. It hardly helps, either, that he is now a spokesman for the oil industry.

Possibly contributing to Mr Allen's confidence is Mr Webb's refusal to say whether he will seek a second term. Yet even though Democrats may have a backup candidate in their national party chairman, Timothy Kaine, who was once Virginia's governor, activists are betting that Mr Webb will run in the end. His record should play well in Virginia: to take one example, his sponsorship, in a state packed with military bases and academies, of an updated version of the GI Bill, which sent millions of ex-servicemen to university after the second world war.

Mr Webb is also pressing for a national review of the criminal-justice system, an idea that helps him with blacks, who make up a lopsided share of America's prison population. Moreover, despite voting for health-care reform and the economic stimulus, he has shown independence from the Obama White House, opposing cap-and-trade pollution rules that threaten Virginia's coal industry.

Mr Webb will also hope for help from Mr Obama. Assuming that the president decides to contest Virginia, he could mobilise the state's substantial black vote, a growing block of new minorities, such as Asians and Hispanics, and the moderate white vote rooted in the fast-expanding Washington suburbs. Few people who vote for him will also vote for Mr Allen.

Rugby in America

Worth a try

Feb 3rd 2011 | *SAN FRANCISCO* | from PRINT EDITION

More and more Americans are being converted to the sport

THIS weekend tens of millions of eyes will be glued to television screens as the Pittsburgh Steelers meet the Green Bay Packers in the Super Bowl, which takes place in Arlington, Texas on February 6th. American aficionados of rugby union can only dream of the Croesian sums of money that are lavished on American football, a sport that vaguely resembles rugby in wimpish armour-plating. But although their resources are far more modest they have achieved some notable successes.

One of them has been to get young Americans engaged with the game. Last year almost 360,000 children played a non-contact form of the sport at school, according to USA Rugby, the sport's national governing body. That has helped raise rugby's profile: a study by America's Sporting Goods Manufacturers Association (SGMA) found that between 2007 and 2009 (the latest year for which data is available), it was the fastest-growing team sport in the country, outpacing rivals such as lacrosse and hockey. In 2009, says the SGMA, some 750,000 Americans played rugby, over 20% more than in 2007. "For the sport to be on our radar screen is a sign it's got some legs," says Mike May, an executive at the association.

To bolster the game's appeal, USA Rugby is launching a college premier league next month that will see teams compete in four regional "conferences", with the top two from each conference heading to playoffs in May. The league's promoters hope it will act as a magnet for high-school players, as well as introducing rugby to more students. "This represents an enormously powerful opportunity to promote rugby," says Bill Campbell, an enthusiastic supporter of the game who happens to be chairman of Intuit, a technology giant.

The sport in America also stands to gain from the fact that a seven-a-side version of rugby (as opposed to the standard 15-a-side contest) will be included in the 2016 and perhaps the 2020 Olympic games. The last time rugby featured in the Olympics, back in 1924, America won the gold medal. Although a repeat performance is unlikely in five years' time in Rio de Janeiro, the prospect of representing the USA Eagles, as the national team is known, should attract more athletes to

the game. Some impressive players already compete in an annual super league competition, which includes teams from some of America's 2,400-odd rugby clubs.

The notion of Olympic rugby has certainly piqued the interest of television executives. Long the preserve of cable channels, rugby is about to appear on network TV. NBC has acquired the rights to show games from this year's rugby World Cup and the next one in 2015. And it is planning to broadcast other matches too, including some from an international rugby sevens tournament taking place in Las Vegas later this month.

Those responsible for promoting rugby in America are confident that when more people see it, they will love it. "Americans like combat sports and good athletes," says Nigel Melville, the head of USA Rugby. True. Yet they also have a penchant for sports that promote superstars and breed controversy, both on and off the field. With its emphasis on teamwork and fair play, rugby doesn't quite fit that mould.

Index | United States

School food

No thanks, Jamie

Feb 3rd 2011 | *LOS ANGELES* | from PRINT EDITION

L.A. can do without naked chefs

EVERY self-respecting school chef in America these days yearns for a food revolution. After all, the consequences of all that junk food are everywhere: fat and unhealthy children who become even fatter and unhealthier adults. If present trends continue, says the Centres for Disease Control and Prevention, one in three American adults could have diabetes by 2050.

This is why, in the winter of 2009 Huntington, West Virginia, a place ranked as America's fattest town at the time, welcomed Britain's famous Naked Chef, Jamie Oliver, into its school district. Mr Oliver brought his camera team and turned the ensuing food education into a reality-television series-called Food Revolution, of course. In a nutshell, Mr Oliver, with his cheeky Essex accent and urbanely messy hair, stars as the British saviour of fat and benighted West Virginians who must be got off pizzas, fries and burgers and onto grains and veggies.

For the second season of Food Revolution, Mr Oliver was planning to do the same in the Los Angeles Unified School District (LAUSD), America's second largest. So he and his family moved to Los Angeles. Apparently to his surprise, the LAUSD has so far told him to get lost.

Why? Robert Alaniz, a spokesman for the LAUSD, gets strangely worked up as he enumerates the reasons. For starters, the district has had bad experiences with reality-TV shows. But the main problem, it seems, is Mr Oliver himself. The folks down in Huntington are contractually barred from talking, but have apparently hinted to the LAUSD that it may need to watch its bottom line.

Anybody can show up and make beautiful Caesar salads, says Mr Alaniz, but Mr Oliver must prove that he can cook good food for their schoolchildren on a budget of 77 cents a serving, buying all his ingredients from approved vendors. California is in the middle of a full-fledged budget crisis, after all. More generally, Mr Alaniz says, the district has already cut down on trans-fats, sugar and junk. A food revolution is well under way, he says, even without cool Brits in charge. Mr Oliver may have to take his cameras and cooking lessons to some other school district, or into the private kitchens of willing, and suitably fat, Californians.

Index | United States

Race and elections

The preclearance problem

Feb 3rd 2011 | *CHARLESTON* | from PRINT EDITION

Is it time to retire the Voting Rights Act?

The clash of amendments

WHEN Lyndon Johnson signed the Voting Rights Act of 1965 (VRA) into law, South Carolina's first congressional district was represented by Mendel Rivers, an ardent segregationist. Its congressman today is Tim Scott, a black Republican, who in the Republican primary defeated the son of Strom Thurmond, a longtime senator from South Carolina who also supported segregation. South Carolina's governor is Nikki Haley, born Nimrata Nikki Randhawa to Indian Sikh parents.

To Larry Kobrovsky, a lawyer from Charleston who also lost to Mr Scott in the Republican primary, such results show that times have changed: the racism endemic to the South in the 1960s has faded, so the VRA is no longer necessary. Mr Kobrovsky now says he plans to sue the federal government, claiming that a key section of the VRA is unconstitutional and imposes an unfair burden on jurisdictions subject to it. And he is not alone: Shelby County, in Alabama, is suing on similar grounds, as are a group of citizens from Kinston, North Carolina.

The VRA was passed in the wake of the systematic suppression of the black vote across the South, whether by violence or by capriciously complex voting systems, inconvenient polling locations or, most commonly, tests of literacy, constitutional exegesis or "moral character".

Both Mr Kobrovsky and the Shelby County plaintiffs argue that the VRA has served its purpose. They have a point: voting among black Southerners has risen dramatically: in 1965 a mere 6.7% of black voters in Mississippi were registered; by 1988 the proportion was 74.2%. That year in Louisiana, as in Texas and Georgia in 2004, a higher proportion of blacks than whites were registered to vote. And nationally in 2008, more blacks than whites between the ages of 18 and 44 voted. High time, say opponents, to retire a section of the VRA that poses thorny constitutional problems.

The section in question, section five, requires jurisdictions that used a "test or device" to bar people from voting, and had a turnout below 50% in the presidential election of 1964, to obtain federal approval for any changes to their election practices, such as redistricting. Part or all of 16 states are covered by the "preclearance" requirement of section five, including nine in the South; they must show that such changes do not deny people the right to vote because of their race or native language. Opponents argue that section five is unconstitutional because it violates the tenth amendment, which reserves to the states powers not granted to the federal government by the constitution, including power over elections and local government.

The Supreme Court has disagreed: in a challenge to preclearance brought by South Carolina in 1966, the Court found the VRA constitutional under the fifteenth amendment, which promises that citizens' right to vote shall not be "denied or abridged on account of race, colour or previous condition of servitude," and gives Congress "power to enforce this article by appropriate legislation". The VRA was an apt response to the "insidious and pervasive evil which had been perpetuated in certain parts of our country through unremitting and ingenious defiance of the constitution," it concluded. Tension exists between the principles of federalism enshrined in the tenth amendment and the broad leeway given Congress to enforce the fifteenth, but in a 1980 ruling, the court ruled that the latter prevails.

And so section five has now been reauthorised by Congress five times, most recently in 2006 (the VRA's bans on racial discrimination and literacy tests are permanent; preclearance is not), when it found that although "first generation barriers" to voting, such as literacy tests and violent suppression, have declined significantly, and the numbers of minority voters and elected officials have risen, enough "vestiges of discrimination" remains to justify keeping the preclearance plank of the VRA in place until the end of 2031.

But the battle is far from settled, and may be heating up. This is a redistricting year-the first since the VRA's passage to have a Democratic-appointed attorney-general. With a plurality of statehouses and a majority of governors' seats in Republican hands, big fights lie ahead. And this Supreme Court has hinted it may be ready to reconsider the VRA's constitutionality. In a 2009 challenge the court dodged the constitutional question, but the chief justice, John Roberts, wrote that "more than 40 years ago, this court concluded that 'exceptional conditions' prevailing in certain parts of the country justified extraordinary legislation otherwise unfamiliar to our federal system. In part due to the success of that legislation, we are now a very different nation." Justice Clarence Thomas partially dissented, arguing that section five has served its purpose, and now "exceeds Congress's power to enforce the fifteenth amendment." Such an admission "is not a sign of defeat, [but] an acknowledgment of victory."

Index | United States

Lexington

Was George Bush right?

Feb 3rd 2011 | from PRINT EDITION

As Egypt erupts, his Arab "freedom agenda" is suddenly looking a little cleverer

BY THE scratchy standards of American politics, Democrats and Republicans left their differences at the water's edge as Barack Obama picked his careful way through his Egypt conundrum this week. The administration had handled the situation "pretty well", said John Boehner, the Republican speaker of the House of Representatives. Anyway, why pick new fights when there is such fun to be had raking over old ones?

From the moment it became clear that something big was under way in Egypt, it was inevitable that America would relitigate the case of George Bush and Iraq. As Egyptians thronged the streets, Mr Bush's defenders flocked into print to argue that the Arabs' newly evident hunger for democracy vindicated the former president's "freedom agenda" in the Middle East. Did not Mr Bush topple Saddam Hussein, a far more monstrous dictator than Hosni Mubarak? Did he not try his best to push America's authoritarian allies to move towards democracy?

Mr Bush was indeed a far more active champion of democracy than Mr Obama has been. In 2005 his secretary of state, Condoleezza Rice, gave a startling speech in Cairo in which she said that having spent 60 years pursuing stability at the expense of democracy in the Middle East, and achieving neither, America was henceforth supporting the democratic aspirations of all people. True to its word, the Bush administration nagged, scolded, bribed and bullied its allies towards greater democracy. The Americans leant on Egypt to hold more open elections in 2005, and in 2006 they talked an astonished Israel into letting Hamas contest Palestinian elections in the occupied territories. Even the Saudis were prevailed on to hold some (men only) local elections. All this was based on a particular theory, the post-9/11 neoconservative conclusion that the root cause of terrorism was the absence of Arab democracy. "The survival of liberty in our land increasingly depends on the success of liberty in other lands," said Mr Bush.

Why revisit this history now? Because with people-power bursting out all over the Arab world, the experts who scoffed at Mr Bush for thinking that Arabs wanted and were ready for democracy on the Western model are suddenly looking less clever-and Mr Bush's simple and rather wonderful notion that Arabs want, deserve and are capable of democracy is looking rather wise. In pursuit of this simple idea he was willing, up to a point, to discombobulate long-standing American allies whose autocratic behaviour at home America had long forgiven or overlooked in the interests of realpolitik.

Compare that, say Mr Bush's defenders, to what came next. Barack Obama entered office eager to "engage" America's enemies and repair relations with Islam. So keen was he on engagement that he gave only tepid support to 2009's "green revolution" in Iran, which the regime went on to crush. As for mending relations with Islam, Mr Obama decided that this required some diffidence. So his own big speech in Cairo stressed that America "does not presume to know what is best for everyone."

That lack of presumption, the neocons now say, was a grave mistake. It gave the dictators a free pass and put America on the wrong side of the barricades in Tahrir Square. Elliott Abrams, who was a senior adviser to Mr Bush, argues that Mr Obama's misguided fixation on peacemaking in Palestine made him forget about the millions suffering under the boot of the Arab dictators.

So Mr Bush is vindicated? Not so fast. Yes, those who mocked his belief in the Arab appetite for democracy were wrong; he is to be admired for championing reform and nudging autocrats towards pluralism. But keep things in proportion. The big thing Mr Bush did in the Arab world was not to argue for an election here or a loosening of controls there. It was to

send an army to conquer Iraq. Nothing that has happened in Tunisia or Egypt makes the consequences of that decision any less calamitous.

The war poisoned the Arabs' reaction to everything America later said or did. Iraq is now a fragile democracy, but precious few Arabs (and rather few Europeans) believe that Mr Bush invaded Iraq for democracy's sake. Many think the non-existent weapons of mass destruction were a pretext, too. In Cairo in 2009 Lexington met a pro-reform academic, Nader Fergany, still seething six years on. "The Americans are the Mongols of the 21st century," he said, "and now Barack Obama is trying to put the icing on this dirty cake." Whatever they think of the freedom message, most Arabs utterly reject the messenger.

Please be free, but continue to love us

Besides, even without Iraq, Mr Bush's freedom agenda had its flaws. The chief of these was that Mr Bush wanted Arab democracy on the cheap. That is to say, he wanted Arab leaders to empower their people but at the same time to protect America's strategic interests. That put a limit on how far he dared to push the reliable old autocrats. And, knowing this, the reliable old autocrats thought all they needed to do to stay safely on their perches was to wait Mr Bush out. Moreover, towards the end of his presidency, Mr Bush himself got cold feet. The electoral victories of Hamas in the Palestinian territories and Hizbullah in Lebanon presented him with democracy's foreseeable but unwelcome corollary, to wit that Arabs granted the gift of freedom might plump ungratefully at the ballot box for America's bitter enemies.

That possibility now faces Mr Obama as the old order in Egypt changes. What if the new one eventually delivers the greatest of the Arab nations into the patient hands of a hostile Muslim Brotherhood? That fear gives even some neocons pause. And such questions will continue to plague America for as long as it aspires to be both a superpower and a champion of democracy and self-determination. It is a riddle to which neither Mr Bush nor Mr Obama nor any president has found a neat answer.

Economist.com/blogs/lexington

Index | The Americas

Brazil's offshore oil

In deep waters

Feb 3rd 2011 | *CIDADE DE ANGRA DOS REIS* | from PRINT EDITION

Extracting the black gold buried beneath the South Atlantic will be hard. Spending the profits wisely will be harder

THE coast of Rio de Janeiro is 290km and 70 minutes away as the helicopter flies. High overhead, gas is flaring; underfoot, enough oil to fill 330,000 barrels is waiting to be offloaded. The ocean floor is 2,150 metres beneath. Drill past 3,000 metres of rock and you will hit a layer of salt 2,140m thick. Only after boring through that fossilised ocean will you strike oil-6.5 billion barrels' worth in the "Lula" field alone. (Supposedly, it is named for the Portuguese word for squid, not the former president called Lula for his curly hair.)

This is the Cidade de Angra dos Reis, a tanker refitted for oil production and storage, moored by 24 piles torpedoed into the ocean bed. It now pumps 14,000 barrels of oil a day (b/d), but once its gas pipeline is connected in March, it will rev up towards 100,000 b/d. The "sub-salt" fields that Brazil is developing are thought to hold over 13 billion barrels of oil. By 2020 Petrobras, the country's government-controlled oil firm, will be pumping 4m b/d in Brazil, double today's amount-if all continues to go well.

That is a big "if". These ultra-deep deposits must be drilled at up to three times the normal pressure for offshore oil. The salt often shifts and closes up after drilling. Some of the chemicals in the oil are highly corrosive. And the distant fields are hard to reach, for both people and pipelines.

The political obstacles to developing the fields are almost as daunting as the geological ones. The government's insistence that Petrobras be the sole sub-salt operator, make up at least 30% of any consortium, and source most goods and services within Brazil has led to predictions of inflated costs and needless delays. And an overly complicated recapitalisation last year, involving an oil-for-shares swap with the government, diluted minority shareholders' stakes and raised the spectre of state interference with management.

But now that the oil is flowing Jose Sergio Gabrielli, the company's president, is ebullient. "We have all the technology we need," he says, "from the surface right down to the oil." What is still unknown, he says, is how full production will affect the deposits, and what mixture of gases and water must be injected to maintain their output. But that is true of all new fields.

He also brushes off criticism of the requirement to source locally. The finds are so large, and Petrobras is such a big part of the world's deep-sea oil production (22%), he argues, that suppliers from around the globe will set up shop in Brazil in order to sell to the company. For example, Petrobras wants to buy 45 new floating platforms like Angra dos Reis, which each cost $4 billion-$5 billion. Only around 75 such platforms presently exist anywhere.

Even if Petrobras passes the test posed by sub-salt oil, Brazil as a whole may not. The government plans to put its share of revenues in a sovereign-wealth fund, to prevent unwanted currency appreciation. Eventually the money will be spent for the good of future generations. But many local politicians are already referring to the oil as a pot of gold at the bottom of the ocean-vast riches, capable of solving all Brazil's ills, and theirs for the spending. Since the money they already take in taxes is plentiful and often wasted, there is no reason to think they would spend oil revenues any more effectively. The fund could well become a target for politicians used to scavenging for the wherewithal to buy votes. Brazil ranks 69th out of 178 countries in Transparency International's annual ranking of perceived corruption.

More hopeful is the prospect that technological progress, led by Petrobras, can diversify Brazil's economy. The company employs more than 1,600 people in research and development, says Carlos Fraga, who leads these efforts. It also works with 85 Brazilian universities and research institutes, and for every one of its own researchers, another ten outside the company are working on its projects full-time. A technology cluster is springing up around Petrobras's research labs in Rio, with university facilities alongside new $50m laboratories built by the likes of General Electric and Schlumberger.

From this perspective, the technical obstacles of sub-salt drilling look like an opportunity. Exploiting offshore oil, says Mr Fraga, could spur Brazilian innovation just as the space race did in the United States. "Just extracting the oil is not enough to move Brazil on in technological development," says Segen Estefan of the Federal University of Rio de Janeiro. "These are finite resources. Brazil must seize the moment to lead in technology, not just in extracting and exporting raw materials."

Index | The Americas

Cuba's housing market

Swap shop

Feb 3rd 2011 | *HAVANA* | from PRINT EDITION

Where a beach-front house can be (almost) yours for a snip

CUBA'S government likes to crow that over 85% of Cubans own their homes. The claim is technically correct. However, there is a catch: holding title to a property does not give you the right to sell it. The only legal way to move in Cuba is by swapping residences-a slow, bureaucratic and often corrupt process known as the *permuta* ("exchange"), which requires finding two roughly similar properties and getting state approval. To avoid this hassle, some Cubans prefer to marry the owner of a property, transfer the deed, and divorce.

Because there is no incentive to build new homes, Cuba suffers from a dire housing shortage. Many buildings have been repeatedly subdivided. In some families three generations share one bedroom.

After replacing his brother as president in 2008, Raul Castro has legalised and taxed bits of Cuba's informal economy, like pirated DVDs and used furniture. Now he has turned to housing. In 2010 the government relaxed rules on forming building companies and buying building materials. It is preparing to let foreigners buy property in tourist zones. And in April the Communist Party Congress is expected to allow Cubans to "buy, sell, or swap" their homes.

The effect of these measures may be limited. Most *permutas* already involve money under the table-ranging from a few thousand dollars to $40,000 for a smart three-bedroom flat. The market will be heavily regulated: officials say they will ban the (as yet undefined) "accumulation" of property. And buyers may be discouraged if they have to prove that their money did not come from the vast black market.

Even so, allowing selling is risky. It will raise tax revenues, but could belie Cuba's myth of material equality. If too many luxury homes pop up, the poor may further doubt that America's trade embargo is the cause of their misery. Already a cluster of sea-front houses west of Havana, acquired via *permuta* by pop stars and foreigners, is getting its first lick of paint in decades.

The market will probably benefit from Barack Obama's loosening of the embargo. He has relaxed most limits on visits and remittances, which should increase demand for Cuban homes and the amount buyers can pay. Some Cuban-Americans are even considering returning for retirement. "Now is the time to move", says Ada Fuentes, who recently came back to Havana after 49 years in New Jersey. "If you have money, life's good here".

Index | The Americas

Evangelical Christians in Central America

Going forth and multiplying

Feb 3rd 2011 | *SAN SALVADOR* | from PRINT EDITION

Catholicism faces competition

The gospel reaches across the isthmus

A LINE of Bibles snaking out of the door of the Friends of Israel Biblical Baptist Tabernacle means the afternoon service is about to start. The church has been extended three times in ten years to seat over 10,000 people, but it is still so busy that the faithful use Bibles to hold their spots in the queue. Weekly attendance is now 80,000, which its officials say is the most in El Salvador.

The evangelical Protestantism preached within its walls (and on screens outside) has taken off in Central America. Estimates vary, but according to the State Department of the United States, barely 50% of Salvadorans now identify as Catholic, and in Honduras and Belize the share has dropped below half. Nicaragua is close behind. In Mexico, by comparison, 90% have kept the Catholic faith.

Some Central Americans switched during the civil wars of the 1980s, when Catholic priests began criticising their governments. To the authorities, "if you were a Catholic you were suspicious," says Gregorio Rosa Chavez, the assistant bishop of San Salvador. After Archbishop Ã“scar Romero was murdered in 1980, many turned to Protestant churches.

More recently, the Catholic church's conservatism has shrunk its flock. Edgar Lopez Bertrand, the founder of the Friends of Israel, says he could not become a Catholic priest because his parents were divorced. Now, the crowd outside his church includes teenage couples and not a few miniskirts. (Should relationship problems arise, the church offers a book called "Help! I'm married".) The gospel of prosperity, recklessly preached by some evangelical outfits, goes down well in poor countries: Costa Rica and Panama, twice as rich as their neighbours, remain strongly Catholic.

Proximity to America has spurred the churches' growth. "Everything we know comes from the United States," says Edgar Lopez Bertrand Jr, who runs Friends of Israel with his father. Media savvy is one useful import: his church broadcasts on television and radio, and sells DVDs alongside religious books.

The United States provides missionaries too. Across the region, groups in matching T-shirts build schools and lavatories in the name of God. Honduras alone receives 50,000 a year. "God just pounded my heart," says Toni McAndrew, who came to El Salvador in 2004 to teach the gospel to the deaf, and is now recording the Bible in sign language. Missionaries in San Salvador run an orphanage and a foundation for disabled children, and train evangelical pastors.

The evangelicals' success is forcing the Catholic church to adapt. "We must ask ourselves why our people left, what we are doing wrong," admits Monsignor Rosa Chavez. Some detect a more lenient line on premarital sex and even abortion. And the Catholic church in El Salvador now has its own television channel, which over Christmas featured young presenters wearing Santa hats.

Shaking up Japan

Bold, or plain reckless?

Feb 3rd 2011 | *TOKYO* | from PRINT EDITION

A beleaguered prime minister takes a big gamble on economic reforms

"JAPANESE prime ministers are just like tissue paper," says Yuriko Koike, a senior member of the opposition Liberal Democratic Party (LDP), plucking a tissue from a box as if to throw it in the bin. Her cold disdain sums up the mood of her party. Since the start of the year, the LDP has said it will focus on destroying the government of Naoto Kan.

For Mr Kan, whose Democratic Party of Japan (DPJ) ended the LDP's long grip on power in 2009, the opposition is just one of many headaches. On January 31st his bane within the DPJ, Ichiro Ozawa, a former party boss, was indicted on political-funding charges but has so far refused to give up his seat, saying he will clear his name in court. That gives the LDP an excuse to continue throwing accusations of sleaze at the DPJ.

What is more, opposition parties have threatened to block implementation of the spring budget for the next fiscal year. Without big concessions, it could mean the government is unable to issue bonds to pay for public services. Budget paralysis is still a distant prospect, but on January 27th Standard & Poor's, a rating agency, downgraded Japan's sovereign bonds partly because Mr Kan's government lacked "a coherent strategy" to improve the fiscal situation. The prime minister hardly helped matters when he said, on learning of the news, that he was "clueless" about it.

Undeterred, however, Mr Kan has stuck to the gamble of his political career. By mid-year he hopes to commit Japan to joining an ambitious free-trade pact including America. He also hopes to produce a plan to raise the consumption (sales) tax to help pay for an overhaul of the social-security system, which is about to face an onslaught of retiring baby-boomers.

By itself, a decision to join the Trans-Pacific Partnership (TPP) would, in the words of a trade official, be "epoch-making". Mr Kan has told the nine countries in the negotiations (America, Australia, Brunei, Chile, Malaysia, New Zealand, Peru,

Singapore and Vietnam) that if Japan decides to join, it will put "everything on the table". In other words, it may not demand special protection for its rice farmers, who shelter behind tariffs of nearly 800%. Japan may, however, seek a slow phase-in of the farm cuts.

The prime minister has also promised to draw up a plan for farm reform aimed at promoting export-oriented agriculture, rather than precious yet unproductive paddy fields. Elderly farmers form a powerful voting block, and analysts say they are likely to create a ruckus against reform. Yet Mr Kan's ministers are expected to tour the country this month in order to drum up support for free trade. According to opinion polls, at least half the country is already in favour.

If Japan does join the talks, it will be running to catch up. America hopes to conclude its TPP negotiations, which have already started without Japan, in time for a regional summit in Hawaii in November. Mr Kan's government argues that, despite the handicap, Japan has little choice but to join. Neighbouring South Korea has negotiated free-trade deals with the European Union and the United States, and Japanese industry fears being left behind. Businessmen note that whereas the value of trade with Japan's free-trade partners represents 16% of the total, South Korea's corresponding level is more than twice that.

If free trade is not ambitious enough, Mr Kan has set out to confront another taboo by June, with plans to raise the consumption tax. At 5%, the tax is the lowest in the rich world, and in the past leaders have paid a high price for meddling with it. Prime ministers who introduced it in 1989, and raised it in 1997, both lost their jobs fairly soon afterwards. When, ahead of upper-house elections last year, Mr Kan unexpectedly discussed a tax increase, voters punished the DPJ at the ballot box.

Yet Mr Kan has ploughed on. He has appointed Kaoru Yosano, an LDP exile and fiscal hawk, to broker cross-party consensus on his reform plans. Both the LDP and parts of the DPJ have reacted scathingly to the appointment. Even those who back fiscal consolidation have doubts about Mr Kan's ability to pull it off. "They can say whatever they like," says Takahira Ogawa, the analyst at Standard & Poor's who downgraded the debt. "I seriously doubt how much groundwork they have done."

Mr Kan has some influential supporters, however. Keidanren, the business lobby that was once firmly in the LDP camp, has switched sides. Its chairman, Hiromasa Yonekura, recently suggested that in rural areas the LDP may be sowing "misleading" information about the TPP. The country's biggest newspaper, the *Yomiuri Shimbun*, is also promoting the merits of TPP and a higher consumption tax to its 10m readers. Its ancient chairman, Tsuneo Watanabe, is an ally of Mr Yosano; the paper has been notably kinder to Mr Kan since the former LDP finance minister joined the cabinet.

No one predicts a smooth ride between now and June. Municipal and prefectural elections are due for April, and opposition parties are loth to do deals with the government beforehand. Though the DPJ has the votes in the lower house of the Diet (parliament) to secure passage of the budget, it lacks the upper-house majority to pass laws to implement it. If the opposition blocked the budget, it would have the excuse to demand that Mr Kan stand down.

To pre-empt that, some people believe he might call a snap election and run on the strength of his reform plans. The prime minister himself insists that is not on the cards. Yet if push comes to shove, there is a chance that Mr Kan-or a more charismatic substitute-might pull it off.

Index | Asia

China's property market

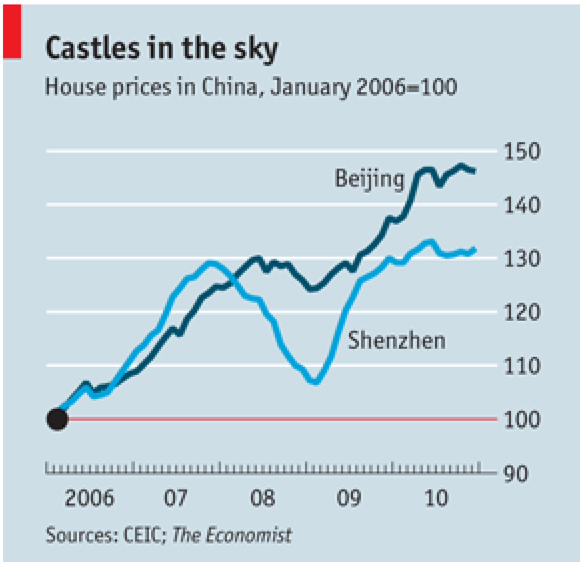
Protecting the middle class

Feb 3rd 2011 | *BEIJING* | from PRINT EDITION

China's leaders nod to the left, but look anxiously to the right

High-rise prices are not for everyone

IN THE southern boomtown of Shenzhen, normally docile legislators have been complaining with unusual vigour. Their worries, aired in the local media, are about the introduction on January 28th of the country's first home-ownership tax in the cities of Chongqing and Shanghai. Some Shenzhen politicians fear their city could be the next to suffer what they describe as a blow to China's growing middle class. They need not be so anxious.



In recent months fast-rising property prices in China (see chart) have put the Communist Party in a quandary. Avowedly socialist leanings mean that the party cannot easily ignore the complaints of the urban poor about the increasing difficulty of getting on the housing ladder. But most registered urban residents (barring migrants from the countryside, who rarely count in official statistics) own their own property. Few want to see prices drop. For them, the main concern is avoiding a crash.

Keeping the middle class happy is also the party's concern. Over the past decade, despite a rhetorical shift to the left, the party has tailored policies to avoid antagonising such a politically crucial group. It has been adept at isolating and containing protests by angry farmers or the urban underclass, using a mixture of intimidation and pay-offs. But it is less sure that it could deal so adroitly with grievances shared by swathes of the middle class. After years of debate, the party is still tiptoeing around a property tax.

Its decision to press ahead now is part of stepped-up efforts since early last year, including two interest-rate rises, to curb speculation in the property market and show the poor it cares. In December home prices in 70 cities rose by 6.4% compared with a year earlier. In late January, just before Chongqing and Shanghai launched their property taxes, the authorities announced new market-cooling measures. These included higher downpayments for buyers of second homes. Owners of two or more homes were banned from buying more. The party also plans a big increase in the construction of government-subsidised housing.

Some officials have touted the new property tax as another market-dampening measure. But it is unlikely to have much impact on prices in the two cities. The tax rates are low and they affect only a small proportion of homeowners. In Shanghai the annual levy is 0.4-0.6% of a property's value, and 0.5-1.2% in Chongqing. In Chongqing it applies only to luxury homes and in Shanghai only to owners of multiple top-end properties. The tax is cautiously described as a "trial".

Last year reports in the state-controlled press suggested that Beijing and Shenzhen, as well as Chongqing and Shanghai, would be among the first cities to introduce such taxes. Now, it seems, the capital will wait. Though Shenzhen is still considering the possibility, it faces stiff opposition. "Shenzhen has no need to try out a property tax," ran a headline in the *Shenzhen Daily*. It said this view was shared by many delegates at the city legislature's annual meeting in January, and ran some indignant-sounding quotes.

On February 1st the prime minister, Wen Jiabao, burnishing his pro-poor credentials, told a gathering to celebrate this week's lunar new year that his government would "resolutely prevent" an excessive pace of inflation and "unswervingly regulate and control" house prices. A week earlier Mr Wen had raised many eyebrows by visiting an office in Beijing to which citizens from around the country flock to seek redress in cases of local abuses of power. It was the first visit to such a place by a leader and was clearly aimed at showing sympathy with the marginalised.

Yet Mr Wen is cautious when dealing with high-handed local authorities. On January 21st, with much fanfare, the central government announced new regulations aimed at curbing the often brutal eviction of city residents to make way for urban development. The need for such rules has also long been debated, but the central government has delayed taking action in the face of stiff resistance from local governments. For them, grabbing residential land and reselling it to developers is a huge source of revenue.

Explore and compare global housing data with our

The new regulations clarify the "public interests" that allow local governments to take over residential property. These include government building projects related to energy or transport infrastructure, or housing for the poor. They do not include commercial projects, which local governments often use to justify land appropriations. Forcing people out of their homes by cutting off utilities or road access is banned. Courts are to settle disputes.

But it is mainly poorer homeowners who are affected by these evictions, whereas the new rules leave local governments with great scope for carrying on as usual. The rules do not apply to evictions from rural land, where most disputes occur. In such cases, even more than usual, the courts are under the thumb of local governments.

One aim of the property tax is to provide local governments with a steady new income that will help wean them off their dependence on one-off land deals. Jia Kang, a government researcher who helped devise the tax, says it should result in fewer evictions and protests. It could, he says, even help promote local democracy, since taxpayers will expect a bigger say in how their governments are run. Another reason, perhaps, for not expecting property taxes to play too big a part.

Index | Asia

Gujarat and its controversial leader

Divide and rule

Feb 3rd 2011 | *GANDHINAGAR* | from PRINT EDITION

A populist leader hopes to remake his troubled image

INDIA is no place to escape the past, but Narendra Modi, chief minister of Gujarat since 2001, is having a go. He is a doggedly successful leader. His state prospers. Billionaires line up to lavish him with praise. Foreign environmentalists court him, and the wealthy Gujarati diaspora also cheer him. Yet within his party, the Bharatiya Janata Party (BJP, the national opposition), Mr Modi's prospects are stunted, hindered by a troubled history.

The pro-business chief minister leaves other Indian politicians wide-eyed with envy. Investors at a summit in January implausibly promised to spend $450 billion in his state in the next couple of years. Mukesh Ambani, a Gujarati industrialist and one of the world's richest men, gushed that Mr Modi would soon "banish poverty". Gujarat, he added, was shining "like a land of gold".

By many measures it glimmers nicely. The centre of India's imports of oil and gas, its economy is growing by 11% a year, above the national average. It generates more power than it needs, selling a surplus over state borders. Now the hyperactive Mr Modi is turning green, setting up Asia's largest solar-energy park and fields of new wind farms. His energy minister predicts that by 2015 Gujarat will generate 10,000 megawatts from solar, wind and tidal power, enough to power three Mumbais.

Investors flock to Gujarat, fond of Mr Modi's talk of small, efficient government and of the speed with which resources-especially land-are handed over for their use. Ratan Tata, the head of Tata Sons, says it took just three days to find a spot for a plant to build its renowned micro car, the Nano. Investors cheer the state's good roads and ports, reliable power, able bureaucrats and efforts to tackle corruption.

Gujarat, with just 5% of India's population, accounts for 16% of the country's industrial production and 22% of exports. Officials like to point to measures of social progress: high rates of primary-school enrolment for girls, and broadband even in villages. Statistics on wealth per person, unemployment, nutrition and health show that ordinary Gujaratis' lives are improving, though not obviously faster than those of other Indians.

Mr Modi has ever more grandiose plans. Above all, he wants the state to become an international hub for tourism and finance. Surveying will start soon for a vast statue of Sardar Patel, a Gujarati who pushed for the British to leave India. At a towering 182 metres (600 feet), it would be the world's tallest, twice the height of New York's Statue of Liberty. That looks especially ambitious given frequent earthquakes; one in January 2001 killed 20,000 and flattened 350,000 houses.

A similarly mammoth conference hall, named after Gandhi, another Gujarati, is rising up fast in Mr Modi's state capital, where he says he wants to host international peace talks. At the investor summit, the chief minister gravely invoked the Mahatma's spirit, saying the strong have a duty to help the weak and warning that "We are facing the consequences of our deeds-rather, our misdeeds" of the past.

As for deeds, Mr Modi could reflect on his own. For all his local success, the 60-year-old remains a divisive national figure. The BJP lacks a strong leader, and Mr Modi is a talented speaker and showman. Yet he is sidelined. A Hindu nationalist, in the 2009 general election he failed to appeal to non-Hindus and moderates. Most damning is the memory of

communal riots in Gujarat in 2002, when at least 1,000 people were killed, mostly Muslims at the hands of Hindu mobs. Mr Modi was accused of signalling to the mobs that they could do as they pleased.

His opponents will not let that be forgotten. Late in January Maulana Vastanvi, a leader at a prominent Islamic seminary, dared to suggest that Muslims in Gujarat were prospering under Mr Modi's rule. His followers promptly forced an apology and demanded that he resign. In February a special investigating team from India's Supreme Court will issue the first of nine verdicts into the 2002 riots. Mr Modi, according to leaks, will not be found guilty of anything, but renewed discussion of the riots will open up old wounds.

Mr Modi's dearest hope seems to be for international favour to help redress his image. A big gain would be the lifting of a travel ban which America imposed after the riots. The head of the United States-India business chamber, Ron Somers, has just hinted at warmer ties, suggesting that America might sponsor Gujarat's next big investor summit, in 2013.

An obvious path lies open to Mr Modi, should he want to hurry his rehabilitation along. He could learn from more moderate Indian leaders who seek to cross religious lines. The chief minister of Bihar, Nitish Kumar, is allied with the BJP while drawing on strong Muslim backing in his state. Yet Mr Modi, who dares not speak to the press for fear that he will be asked about the grisly events of 2002, does not seem ready take that path.

Index | Asia

Thailand's monarchy

When more is less

Feb 3rd 2011 | *SINGAPORE* | from PRINT EDITION

The increasing use of lese-majeste laws serves no one

ON FEBRUARY 4th the latest trial for insulting the monarchy was to begin in a Bangkok courtroom. The accused is Chiranuch Premchaiporn, arrested in 2009 for violating the Computer Crime Act. As director of Prachatai.com, she faces ten charges for not preventing comments on bulletin boards that might have offended the royal family. If found guilty she faces up to 50 years in jail.

The 2007 act was originally intended to prevent cybercrimes such as hacking. But most prosecutions are for online content which supposedly endangers national security. Prosecutions for insulting the monarchy come under this rubric. The trial of Ms Chiranuch is an unwelcome reminder that laws on lese-majeste, once used only sparingly, are now deployed with ferocious frequency-more for political gain than to protect the monarchy.

With government statistics, David Streckfuss, an academic, says the number of lese-majeste charges each year has leapt, from just 2.5 on average in the 1980s to 164 in 2009. Many of the accused are jailed. The Computer Crime Act has also had a powerful effect. Work by Thammasat University says the courts have used it to block nearly 75,000 web pages, 57,330 for anti-monarchy content. Some 44,000 of those pages were blocked in 2010.

The increase in repression dates from the coup against the populist prime minister, Thaksin Shinawatra, in 2006. He was widely seen by those around the king to be too powerful, even usurping the prerogatives of the monarch. Today the conservative government of Abhisit Vejjajiva says lese-majeste laws should be used vigorously to protect the king from criticism and prevent him from being dragged into party politics. But it acknowledges over-enthusiastic appplication and has set up a committee to review this.

Yet Pavin Chachavalpongpun, a diplomat-turned-academic, argues that the opposite is happening. The almost arbitrary use of lese-majeste, he writes, has "served to damage, not safeguard, the institution." Meanwhile, he argues, using laws to suppress the opposition and media obstructs Thailand's democratisation. Official veneration of the monarchy has sometimes reached ridiculous proportions. For critics like Mr Pavin, the rush to prosecute is not really about protecting the monarchy but about exploiting its prestige to legitimise the royalist establishment.

How far the ailing King Bhumibol supports the use of the law to protect his name, no one is sure. But Sulak Sivarkasa, a lawyer who has twice been prosecuted for lese-majeste, has an illuminating story. His most recent case, in 2009, involved a critical essay on the monarchy in an obscure journal. He was arrested, but found out while dining with a public prosecutor that his case had been dropped. Mr Sulak asked why. "He told me frankly that the king wanted it to be done, to stop."

Shootings on the India-Bangladesh border

Felani's last steps

Feb 3rd 2011 | *ANANTAPUR, KURIGRAM* | from PRINT EDITION

India's shoot-to-kill policy claims one more innocent

He's not quail-hunting

IT WAS all settled, says Mohammed Nur Islam, a Bangladeshi worker whose family migrated to India when he was six. His daughter's wedding would take place the day after their return in Bangladesh. But the wedding never happened. On January 7th India's Border Security Force (BSF) shot dead Mr Nur Islam's 15-year-old Felani, at an illegal crossing into Bangladesh from the Indian state of West Bengal. Felani's body hung from the barbed-wired fence for five hours. Then the Indians took her down, tied her hands and feet to a bamboo pole, and carried her away. Her body was handed over the next day and buried in the yard at home.

The BSF kills with such impunity along India's 4,100-kilometre (2,550-mile) border with Bangladesh that one local journalist wonders what the story is about. According to Human Rights Watch, India's force has killed almost 1,000 Bangladeshis over the past ten years. That implies a shooting every four days. The death toll between two democracies dwarfs the number killed attempting to cross the inner German border during the cold war. Mr Islam does not know why things went wrong. Like many from Kurigram, a desperately poor district in northern Bangladesh, he had made the crossing countless times before. He had paid 3,000 rupees ($65) to traffickers on the Indian side.

The public outcry in Bangladesh has been huge, India's apology feeble. Until now, Bangladesh's own leaders have played down such killings. More preoccupying to the prime minister, Sheikh Hasina, are the implications for her attempted rapprochement with India. The picture of the dead teenager was first published by *Anandabazar Patrika*, a leading

Bangla-language newspaper in Kolkata. This week walls near the Dhaka offices of Sheikh Hasina were plastered with posters of Felani that called for the killing to stop.

Partly because of the shooting, the approval ratings of Sheikh Hasina's government, already drooping, have slid further. She may now have to slow the rapprochement drive just as her Indian counterpart, Manmohan Singh, prepares to visit Bangladesh. Dhaka is a willing partner in a crackdown on Bangladesh-based Islamic extremists and insurgents from India's north-eastern states. India's promise of economic integration has yet to show much progress. Shooting the people you claim to want to do business with is a poor start.

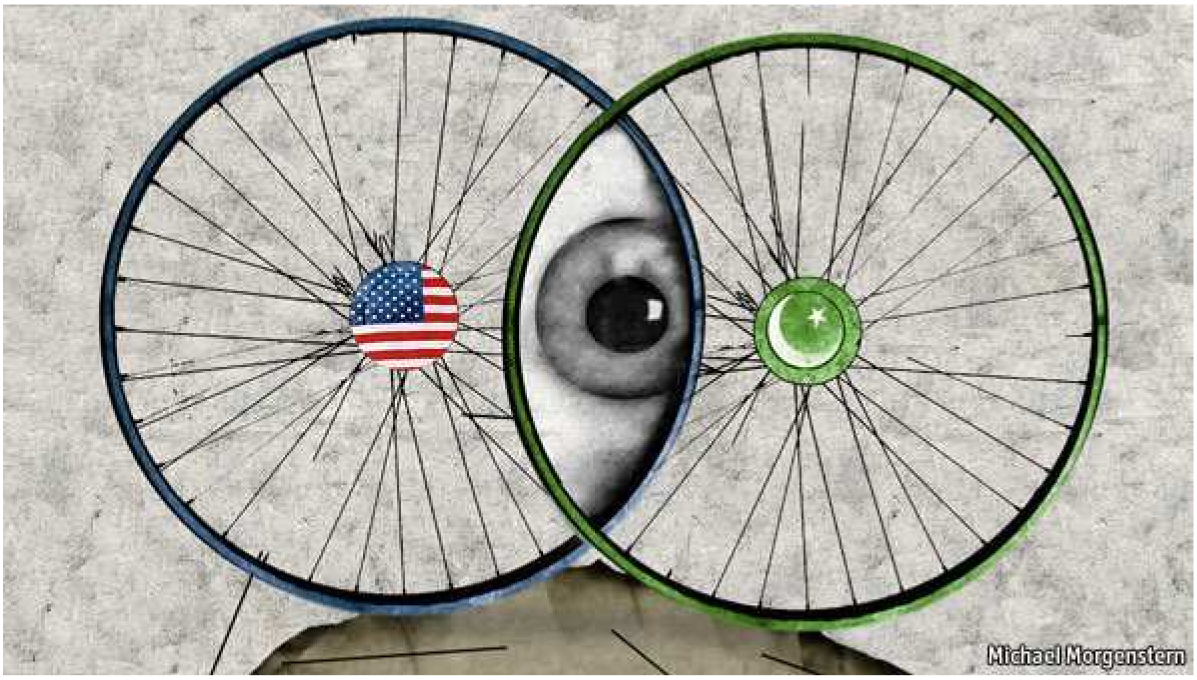
Index | Asia

Banyan

Loss and risk management

Feb 3rd 2011 | from PRINT EDITION

A new setback in the accident-prone alliance between Pakistan and America



CONSPIRACIES are popular in Pakistan, especially those involving America. When an American, Raymond Davis, was arrested for murder after shooting two people on January 27th in traffic in the city of Lahore, many Pakistanis at once suspected the worst. The more that has leaked out about the case, the more their suspicions have seemed justified, and the more serious the damage to a "strategic partnership" vital to both countries. It will be mended-it always is, somehow-but not quickly, and not by Mr Davis's early release.

The two countries have some common ground about what happened. Mr Davis shot two men on a motorcycle who approached his car stuck at a traffic light. Another motorcyclist was accidentally killed by a car rushing to Mr Davis's assistance. America says Mr Davis is a diplomat, claims immunity for him and demands he be freed at once. It has not identified, let alone surrendered, the driver of the other car. Mr Davis has told police that he acted in self-defence when the men, who he thought were robbers, pulled out guns.

The version Pakistanis have pieced together from press reports, whispers from officials and frenzied chat-show speculation is more exciting. Mr Davis was not on a list of diplomatic personnel in Pakistan submitted by the American embassy to Pakistan's foreign ministry on January 25th. In Lahore he had been to lunch with unnamed contacts in a well-known restaurant. He carried a Glock pistol and M16 bullets with hollow points. He shot one man once in the front and three times in the back. The other took eight bullets, mostly in the chest.

Rather than flee, Mr Davis stayed to photograph the dead men. His car was equipped with a video camera and radio equipment. American media have reported that Mr Davis is associated with a Florida-based outfit called Hyperion Protective Consultants ("your first choice in loss and risk management"). Some guess he is a CIA agent, who had been dining with informants or terrorist contacts, and the meeting went badly wrong. The men may have been muggers. But Pakistanis are outraged-they are already angry at attacks by unmanned American aircraft on targets in their country. Shireen Mazari of Pakistan Tehreek-e-Insaf, the party of Imran Khan, a former cricketer, thunders that America is "so used to killing Pakistanis and getting away with it."

American officials have reportedly approached the families of those killed in Lahore to offer money in the hope they would ask for the charges against Mr Davis to be dropped. Asked about this on a television chat show, two relations said they would not take the money. But, they said, they might be swayed if America were to free Aafia Siddiqui, a Pakistani neuroscientist sentenced to 86 years in an American jail after trying to shoot soldiers and FBI agents while under interrogation in Afghanistan.

The inevitable anti-American protests Mr Davis has provoked have partially merged with another campaign: to uphold Pakistan's harsh law against blasphemy. America and others have urged Pakistan to repeal or amend the law, which provides for the death penalty against blasphemers on very flimsy evidence. The Islamist right has rallied against any change, which is not on the cards-especially since the assassination last month of Salman Taseer, governor of Punjab province, for his support of reform.

The belief that America is callous about Pakistani lives and hostile towards Islam is the result of five decades of resentment. Pakistan has felt let down by America's failure to back it in its wars against India, and abandoned when, after helping Pakistan fuel the anti-Soviet resistance in Afghanistan in the 1980s, America turned its attention elsewhere. America's recent courtship of India and the favours it has bestowed on it have renewed Pakistanis' sense of betrayal. Religious parties depicted the first Gulf war and the invasion of Iraq as attacks on Islam. Pakistani Pushtuns see the war in Afghanistan as being waged against ethnic, as well as religious, brothers.

Ijaz Gilani, of Gallup Pakistan, a pollster, says surveys show that distrust of America is "almost a national consensus". This makes it hard for Pakistan's president, Asif Ali Zardari, to do other than tell America that the Davis case must be handled by the courts. To intervene might trigger an outpouring of anger. Some of Mr Zardari's opponents look at Egypt and Tunisia and see fellow Muslims taking to the streets to oust American-backed leaders. They ponder getting rid of their own unpopular president.

Yet Mr Zardari needs the United States more than ever. Pakistan is still grappling with the effects of last year's floods, the country's worst ever, affecting 20m people. Public finances are in a mess and the IMF, which has yet to disburse $3.5 billion of its 2008 bail-out, was in Islamabad this week to urge politically tricky fiscal reform. America is both by far the biggest donor to flood relief and the biggest source of other bilateral aid.

With strategic partners like these...

It also helps bankroll an army stretched by flood-relief work, continued vigilance on the eastern border with India and fighting with Islamist extremists in the tribal areas in the north-west. Some 1.2m people remain displaced by that conflict. An insurgency simmers in Balochistan. Across the country, religious and sectarian violence claims lives daily.

Yet America needs Pakistan as much. It continues to press the army to campaign in North Waziristan, one of the tribal areas, against militants using it as a base for operations in Afghanistan. And the worst fear haunting the West in Afghanistan is that the war will end not just in defeat in that benighted land of 30m people, but also in the radicalisation of Pakistan, with 190m and a nuclear arsenal said to be approaching 100 warheads. Much as they dislike it, America and Pakistan are stuck with each other.

Economist.com/blogs/banyan

Index | Middle East & Africa

South Sudan's future

Now for the hard part

The January referendum confirms that South Sudan will become a sovereign country. But it will struggle to prosper

MARY LONOS digs ten tiny fingers into her mother's plump breast and greedily twists the nipple into her toothless mouth. She was born two months ago on the dusty floor of a mud hut in remote South Sudan, far from medical help. The region is the size of France but has only a handful of midwives. One mother in seven dies in childbirth, more than anywhere else in the world. But Mary's parents seem almost oblivious to misery. They have covered pools of blood from the birth with a thin layer of earth and are toasting their daughter with cups of cloudy water.

Life in Lirya, a collection of huts among lumpy hills covered in shrub, has improved markedly since a 2005 peace deal. Regional leaders and the Sudanese government ended five decades of civil war that drove the town's 1,000 residents into the hills. One by one, they have returned. Aid agencies are digging new wells and installing pumps; the inhabitants hope to cultivate their fields again. A brick church without a spire was built last year, and the first shops in the town's history have opened in tin shacks.

Mary's parents expect life to improve further. January 30th saw the final results of an independence referendum on South Sudan held under UN auspices. Nearly 99% of southerners, who are Christian and animist, voted for separation from Sudan's Muslims, who live mainly in the north and dominate the government. In addition to permanent peace, the southerners hope to gain a bigger say in their own affairs and a greater share of the region's mineral wealth. "Having our own state will make everything better," says Mary's father.

But will it? The new country, which is likely to be called South Sudan, faces many hurdles. The biggest is a shocking lack of public services. At the moment southerners are loyal mostly to belligerent tribal chiefs, not the nascent government that led the fight for independence. That government will win the trust of its citizens, and with it permanent peace, only when it starts visibly caring for them. That will not be easy.

South Sudan occupies one of the least developed and most remote parts of Africa. Many of its 8m-14m inhabitants-nobody knows the exact number-live in unmapped lands. The whole region has perhaps 100km (62 miles) of paved roads, half in the capital, Juba, and the other half on Chinese-run oilfields. The few existing dirt roads between settlements are littered with potholes, some so big that cars disappear into them. Large parts of South Sudan can be reached only by helicopter-or on foot. As one official wonders, "How to administer a territory you cannot visit?"

One million southerners are so poor that they need food aid-yet they rarely get enough to eat. All electricity comes from private generators, but the supply of fuel is irregular. Water is hard to get. In the capital men line up beside the Nile at sunrise to fill yellow jerry cans. Only 30% of the population has access to health care, most of it supplied by western agencies. Hospitals are extremely rare. Even large towns must make do with meagre dispensaries and most lack doctors. One baby in six dies before his or her first birthday.

For those who survive, things are looking up a bit. South Sudan has made some progress in education in the six years since the peace deal, a period otherwise squandered. With foreign help, new schools have been built-some in brick, though in many cases blackboards are simply nailed to trees. On paper, school enrolment has gone up sharply. But only 10% of enrolled pupils complete their studies, and only one teacher in seven has proper training. Some estimates reckon a mere 500 girls a year finish primary education. A South Sudanese girl is more likely to die in childbirth than to learn to read and write.

Wealth on the hoof

Some South Sudanese have clearly benefited from six years of peace. Helped by light regulation, small private businesses have sprung up: motorbike-taxi firms, shops selling milkshakes, stalls charging mobile-phone batteries for people without access to a generator. But bigger companies are almost all owned by foreigners, mainly Kenyans and Ugandans. South Sudanese see little of the profit: they lack experience and access to capital, and many of them cannot even add up. That is a shame, because there are plenty of opportunities, especially in the countryside.

Large parts of South Sudan are invitingly fertile. Farmers could grow grain, sugar cane, coffee, tea and tropical fruits for canning. Few do. Most concentrate on raising cows, and not even for slaughter. Some 11m head of cattle wander the south, possibly more numerous than people, but beef sold in markets is usually imported.

Cattle are a cultural touchstone for most South Sudanese. Horned herds are a status symbol, a way of storing wealth in a land without a banking system, and the main currency in which dowries are paid. No matter how poor they are, people try to hold on to their beasts.

That would be fine if they could monetise what lies below the hooves. South Sudan has minerals galore: gold, copper, iron ore and more, largely unexplored. The only natural resource tapped thus far is oil, of which the south has quite a bit (6.7 billion barrels in proven reserves, or a 40th of Saudi Arabia's pool). But oil creates few jobs, and revenues go directly to officials.

Much hope for promoting private enterprise rests with the diaspora. Millions fled during the civil war, and a growing number are making small loans from afar to local businesses. Others return in person, bringing skills and capital. A notable example is Valentino Achak Deng, whose flight from Sudan as a "Lost Boy" was chronicled in the bestselling book "What is the What". He is back from America and investing in his home town, Marial Bai.

Yet the arrival of exiles is a double-edged sword. More than 100,000 have come since October, more are likely to follow, and UN staff fret that they are taxing resources in the south. Most of them come from the north, especially Khartoum, where they are barely tolerated. Resentment stored up in exile may create an uncomfortable climate for the northern

traders who, for decades, have been a vital part of the southern economy. Some have left already, fearing attacks. A forced exodus would undermine private enterprise, perhaps even peace itself.

Conflict with the north has dominated South Sudan since 1956. Sudan's colonial masters, the British, lumped Christian southerners together with Muslim northerners to form Africa's largest country. Whenever the south became restive in subsequent decades, the ruling north would either inflict punishment or support renegades there. The north provided few public services, even after the peace pact of 2005, which was meant to give the government in Khartoum a chance to convince southerners of the benefits of unity.

Divvying up the loot

With a divorce now virtually certain, the two sides must contemplate a division of assets. First they must mark the border, the longest in Africa. That need not be a huge problem: both sides have agreed to stick to the border left behind by the British and, where land occupied by north or south is on the wrong side, they could agree to a swap. More important than the exact line is the nature of the border. Both sides would like it to be "soft" to allow for the free flow of goods and people. Ideally, they would create a demilitarised zone, but the UN has no wish to patrol it. Instead, a rapid-reaction force could be formed. If it fails to keep the peace, the border may end up more rigid than either side wants.

The trickiest part of the border dispute centres on the region of Abyei. Two years ago, and again in January, it saw vicious fighting. Burned-out vehicles and collapsed houses dot the landscape. Muslim cattlemen from further north believe they have grazing rights in the Kiir river valley. The northern government supports them. Oilfields below the verdant pastures have a lot do with it. "What Khartoum wants is black, not green," says a southern general. Under the peace deal of 2005, Abyei was supposed to have its own referendum to decide which side its mainly Christian residents will join. But northern rigidity made that impossible. Now a deal must be done.

The existence of oil so near the border might be thought a catastrophe for Sudan. War seems to follow oil as if by a law of nature. But in this case, oil could be the lubricant that keeps the peace process going.

Not many of Sudan's oilfields are disputed, as in Abyei. Most are solidly in the south. But the south is landlocked. At the moment it can export oil only down a pipeline that goes through the north to Port Sudan. The two sides need each other, and have shared revenues for years. In the south 98% of the government budget comes from oil; in the north it is about half.

The current sharing arrangement, designed for a single sovereign country, is likely to change after secession. The south may start paying the north hefty transfer fees instead of splitting revenues. If the two sides cannot agree, the old arrangement could continue for a while by default. The joker in the pack is a southern plan for a new pipeline to Kenya, cutting out the north. Yet foreign advisers in Juba have publicly doubted that the plan is viable. A sigh of relief was heard in Khartoum.

Little hope of a pension for Salva Kiir

Future fighting between north and south cannot be discounted. But the more likely source of violence now is an internal conflict in the south. Tribal loyalties are fierce, arms flow freely, army units are fractured and cattle-raiding is rampant. Most of the fighting of late has been between southern groups; there is less and less evidence of northern involvement. The south has to learn to take responsibility for itself.

A welcome step is the creation of a police force separate from the brutish bush fighters in the army. The first 5,000 recruits have just graduated from a new police academy. Meanwhile, renegade militias have been brought back into the fold with promises of government cash.

No blood, no job

To make peace permanent, however, South Sudan needs a fully functioning government. The ruling Sudan People's Liberation Movement (SPLM) is dominated by semi-literate military figures. A few educated technocrats have been drafted in and some ministers are impressive. But the talent pool is shallow, and many of the hardened generals resent outsiders. "Did you fight?" they ask. No blood, no job.

Half of the civil servants lack primary education. Those who can read and write often lack the essentials for doing their jobs. A frustrated official theatrically opens his empty desk drawers. "Look, we don't even have pens and paper," he says. Ministries are reasonably well funded and the UNDP is working hard to train experts. But the rest of the government so far exists mainly on organisation charts.

The SPLM's democratic credentials are no better than its administrative skills. Elections last year were hardly a model of democracy. Few opposition figures won seats in the parliament; like so many liberation movements in Africa, the SPLM finds it hard to tolerate dissidents. Senior figures like Luka Biong, a minister, acknowledge as much and claim to want change. In October the government invited opposition parties to a joint congress on the future of the state. Some parties may even be asked to join an interim government after independence is declared, probably on July 9th, but real power will remain out of their reach for at least a generation.

The media are no better off. The government controls a lot. The UN finances a popular radio station, but independent newspapers have a hard time finding readers. More powerful as a counterweight to the SPLM are the churches, both Catholic and Protestant. Priests, who are highly respected in South Sudan, co-operate with the government, though not unreservedly. As organisers they do so well that the government at times appears resentful.

The most sensitive subject the priests have tackled is corruption. Some claim that the acronym used by the government of South Sudan (GOSS) stands for "government of self-service". A great deal of pocket-stuffing goes on. The Dinka, the biggest tribe, run the SPLM and get most of the spoils. Other tribes, like the Nuer, maintain their own patronage networks. Ministries are run for the benefit of their employees, of whom there are far too many.

Salva Kiir, the regional president and secession leader, has proved adept at balancing the tribes and consulting everyone. In part that is because this tired old Dinka fighter has few ambitions left. After independence-taking his people to the "promised land", as he puts it-he would like to retire. Alas, none of the men around him seems capable of holding the fragile patchwork of tribes together, so he may well be persuaded to stay on.

What happens if Mr Kiir's government performs badly is another matter. South Sudan would not be the first African state to fail, but it may do so more spectacularly than most. Oil, tribalism, corruption, ubiquitous arms and many newly retired guerrillas are a combustible mix. The civil war between north and south killed 2m people. A rapid return to civil strife does not look likely at present. But in the longer run few observers sound confident that South Sudan will be harmonious.

Index | Middle East & Africa

Sudan and its rebels

A deal over Darfur?

Feb 3rd 2011 | *NAIROBI* | from PRINT EDITION

Two of Darfur's bigger rebel groups want to talk peace

AT LAST, a breakthrough in the Darfur peace talks that have been lumbering on unnoticed in Qatar since 2009. Two of Darfur's three big rebel groups this week agreed to sit down at the negotiating table with the Sudanese government. The Justice and Equality Movement (JEM), the best known, and the Liberty and Justice Movement (LJM), a clutch of small rebel outfits, say they will make concessions over how Sudan's wealth and power can be shared. They may even agree to a referendum in which Darfuris could decide their future. The senior UN and African Union (AU) mediator overseeing the talks, Djibril Bassole, calls the agreement "unprecedented".

So peace, then? Not exactly. A third rebel group, the Sudan Liberation Army, has failed to show up in Qatar. Worse, the Sudanese government may have been stringing out the talks to buy time and to fend off critics. "They have feigned interest and participation," says a source at the talks. Khartoum has sent lowly officials without the authority to negotiate.

Sudan's government wants the talks moved to Darfur. Thabo Mbeki, South Africa's ex-president, keen to burnish his retirement credentials by forging peace in the region, seems to support such a shift. But the rebels refuse, saying that talks so close to the battle front would be manipulated by the government.

Diplomats talk vaguely about a purpose-built fortified camp that could be built outside the Darfuri town of el-Fasher to host the talks, but security may not be guaranteed. The joint UN-AU force, known as UNAMID, has 22,000 troops and police, plus a budget of $1.8 billion, but its "force protection" often looks more like self-protection. It has repeatedly failed to keep civilians safe. Human-rights activists say the situation in Darfur has recently "deteriorated sharply", with a return to past violence on both sides; 40,000 civilians have been displaced in the past month and fighting has been raging south of el-Fasher.

Omar al-Bashir, Sudan's president, is loth to sit down in good faith with the rebels. He is under attack at home for letting the south go, though people are more worried about Sudan's stagnating economy and the country's general malaise. Still, any concession towards autonomy in Darfur would be seized on by nationalists and Islamists-and could help precipitate his own downfall.

Index | Middle East & Africa

Killings in Liberia

Nasty business

Feb 3rd 2011 | *MONROVIA* | from PRINT EDITION

A spate of ritual killings unnerves Liberia

NOT rural superstition, but part of political life: body parts such as the heart, blood, tongue, lips, genitals and fingertips, all used in sorcery to bring wealth and power, are removed. Then the body is dumped. Such ritual killings are known in Liberia as *gboyo*. Since a case in the 1970s known as the Maryland murders, when seven people, including a parliamentarian and a senior policeman, were hanged for killing a fisherman, the practice has tainted politicians at the highest levels. As parliamentary and presidential polls this autumn draw near, politicians are again tempted to turn to the supernatural for help.

Welemonger Ciapha, a seasoned newspaper man, says the killings are "rampant" and increasing. Local media report tens of cases each year. But many deaths are described as murder, accident or suicide, according to an American government report on human rights. Others go undiscovered.

In a case dating from March last year, due to come to court soon, a pregnant woman and her unborn baby were killed and body parts taken. Vials of blood were reportedly found in the house of a senior official in Maryland, a south-eastern county where superstitious beliefs are strong. But reports of such killings come from all over. And traditional "heart men" now include criminals who trade body parts for cash.

Liberia's long civil war made such things seem less gruesome. In 2008 Milton Blahyi, a former warlord, admitted to eating children's hearts before going into battle. Along with wearing female wigs and going naked, the practice was believed to bring victory.

Deterrence has not worked. Poverty tempts people to kill for money, says Mr Ciapha. An ailing justice system, particularly in rural areas, means that murder often goes unpunished. Prominent officials wriggle away. And witchcraft works: mere rumours of a candidate's special powers can raise his standing.

In a country seeking to shed the scars of civil war, the ritual killings cause outrage. In 2005 UN troops had to be sent to Maryland to quell demonstrations against the practice. Worried citizens stay at home after dusk. Some parents have stopped their children going to school. "Better safe than sorry," says one dad.

Index | Europe

Germany's leader

The constant chancellor

Feb 3rd 2011 | *BERLIN* | from PRINT EDITION

Angela Merkel may not look as strong as the German economy does-but she will still be hard to topple

EVERY year the German Language Society selects a word of the year and an "unword", usually something somebody said but should not have done. *Wutburger* (irate citizen) was the word for 2010. The unword was *alternativlos* (no alternative), as in "the bail-out of Greece was *alternativlos*." These choices capture something of Germany's mood these days. *Wutburger* refers to Germans who are angry about huge infrastructure projects, among other things, and disenchanted with conventional party politics. *Alternativlos* suggests a sense of frustration and resignation.

Aufschwung (economic upswing) might have deserved a mention but did not get one. In 2010 the economy grew at its fastest rate since unification, and unemployment dropped to its lowest level since 1992. Real incomes are rising after years of stagnation. In December 45% of Germans were confident about the coming year and only 11% felt trepidation, says one survey. Other rich countries are studying Germany's recipe for success with some envy.

In most countries voters would give their government credit. In Germany things are more complicated. Angela Merkel's coalition, which took office in October 2009, is widely seen as a disappointment. The three-party alliance-consisting of Mrs Merkel's Christian Democratic Union (CDU), its Bavarian sibling, the Christian Social Union (CSU), and the Free

Democratic Party (FDP)-has bickered openly and steered uncertainly in its first year or so in office. If an election were held now the coalition would lose its majority.

Yet that negative verdict needs nuance. The coalition's weakest link is the liberal FDP and its abrasive leader, Guido Westerwelle, who also serves as foreign minister. The FDP has struggled to adjust to the responsibilities of government after 11 years in opposition. Support for the Christian duo is about where it was in 2009 (but, given the flight of voters from the FDP, it should surely be higher). And Mrs Merkel herself remains more popular than her government. Some 67% of voters approve of her performance.

This is not new. In voters' eyes Mrs Merkel outshone her previous government, a "grand coalition" with the Social Democratic Party (SPD). The SPD was ejected in 2009, but voters chose to keep Mrs Merkel on. Even the opposition suspects that the same may well happen in the next federal election in 2013. In this Merkel era, coalition partners are like mathematical variables: conceivably the SPD or even the high-flying Greens could replace the FDP as the conservatives' allies in government. The one constant is the chancellor.

The opposition lacks artillery. The SPD is still seeking a remedy that might arrest its long-term decline. Its leader, Sigmar Gabriel, is not a credible alternative to Mrs Merkel. Frank-Walter Steinmeier, the former foreign minister, would be more formidable. But German voters tend to unseat chancellors only when they are angry, not because they embrace the challenger. The Greens could conceivably displace the SPD as the second-strongest party, but they too lack a candidate to match Mrs Merkel. The ex-communist Left Party is a mess. A coalition of the three left-of-centre parties seems far-fetched.

In Mrs Merkel's camp, chieftains with the stature to challenge her leadership have recently left politics (Christian Wulff, the former premier of Lower Saxony, became federal president last year). Their successors lack experience or independent power bases. Karl-Theodor zu Guttenberg, the charismatic defence minister, is Germany's most popular politician and a potential chancellor. But he is young and his route to the top is through the CSU. His handling of a series of minor scandals has dulled his sheen, at least temporarily.

The strong economy will buoy Mrs Merkel, even if earlier governments deserve more credit for it than the present one. Less obviously, she may benefit from pockets of rage and resignation. Her administration has looked more purposeful ever since it challenged rebels against an ambitious rail project in Stuttgart, the original *Wutburger*. The CDU brands them enemies of progress and mocks the Greens, political home to many rebels, as the "party of no". The Greens' opposition to Munich's bid to host the 2018 Winter Olympic Games was "a step too far", reckons Klaus-Peter Schoppner of TNS Emnid, a pollster.

For citizens fed up with or merely indifferent to party politics, Mrs Merkel's style is a good fit. A cerebral, level-headed former physicist, she operates in the background, unlike her attention-grabbing SPD predecessor, Gerhard Schroder. Yet she comes across as approachably ordinary rather than forbiddingly professorial. "She's popular because she doesn't cut herself off from people," comments one SPD politician. "She seems relatively normal."

With no domestic crisis to force divisive reforms on Germany, Mrs Merkel thinks she can just nudge the country forward. The euro crisis is another matter. Her stubbornness in defence of German interests may have angered her euro-zone partners and unsettled the markets, but it has also brought grudging political consent whenever stubbornness has yielded to compromise. When Mrs Merkel sees no alternative, people tend to believe her.

She has been through politically rough patches and may encounter more. She has been damned for maintaining radio silence rather than sending clear messages, for balancing factions rather than leading, for leaning left when her party yearned for a rightward tilt. She will be tested by seven regional elections this year. The results could wound her. But, for now at least, Mrs Merkel seems to be *alternativlos*.

Index | Europe

Spain's economic outlook

Reforming Zapatero

Feb 3rd 2011 | *MADRID* | from PRINT EDITION

A socialist prime minister pursues liberal reforms

Zapatero gives in to the reformers

HAS Spain changed at last? The prime minister, Jose Luis Rodriguez Zapatero, who is mistrusted by the bond markets and unpopular with Spaniards, would certainly like the world to think so. On February 2nd he signed a solemn "social pact" with unions and employers, covering pensions, collective bargaining and more. It was, Mr Zapatero declared, the most important such deal since the Moncloa pact of 33 years ago.

Under its terms Spaniards will, albeit with many exceptions, retire at 67 (instead of 65). Or at least they will do so in 2027, the year when the reform fully kicks in. That is far off, but Spaniards are set to be among the longest-working people in the European Union. First, however, they must find jobs. Unemployment at over 20% and rising is proof that Spain urgently needs a lot more change.

The pact came just a day before the German chancellor, Angela Merkel, who many think is holding Mr Zapatero's nose to the grindstone, was expected in Madrid. The hope was that she would return home to reassure Germans that Spain is not like giddy Greece, irresponsible Ireland or profligate Portugal, but a serious, austere, hard-working southern country that is ready to pop the pill of reform.

If the Germans believe this, Mrs Merkel will find it easier to agree with her fellow euro-zone leaders to an expanded rescue fund at next month's EU summit. A bigger fund (and the social pact) should soften worries about Spanish sovereign debt, at least for the time being. Meanwhile Spain's shakier savings banks have been set on a path to recapitalisation and, in some cases, nationalisation by September (see article). Yet it remains to be seen if all this will be enough to restore confidence in growth for a country that accounts for almost one-third of the euro zone's unemployed.

The new pact has left some important problems unsolved. A crucial reform to collective bargaining will not be settled until mid-March. In an interview Mr Zapatero himself points to the madness in the current system, under which Spain combined one of the euro zone's highest wage rises with some of its biggest job losses in 2009. Now he wants wage agreements linked directly to productivity growth.

The prime minister's belated conversion to reform is so earnest that, with or without prodding from Mrs Merkel and her fellow euro-zone leaders, he now insists that he would pursue it anyway. "Spain is doing its reform on its own, not because anyone is telling us to," he says. "I am in favour of sanctions being imposed on EU countries that do not comply with debt and deficit criteria."

Mr Zapatero also remains committed to Spain's fiscal consolidation. He says that the government narrowly beat its 2010 deficit target of 9.3% of GDP. A contraction of GDP of 0.2% was also a shade better than forecast. He insists that he will meet 2011 targets of a 6% deficit and 1.3% growth. But if the growth does not come, he will not tax his way out. "If there was any risk of not meeting the target, then we would do it by reducing spending, not by increasing taxes," he vows.

There are limits, however, to his reformist zeal. Mr Zapatero preaches wage moderation (and real wages are indeed dropping at last), but he does not embrace the idea that Spain as a whole needs wage deflation to compete. "Not necessarily," he says. "There has to be salary moderation. I think we have to look at it on a sector-by-sector basis and a company-by-company basis." Nor does he believe that house prices have much further to fall. "We are almost at the bottom (of the cycle)," he insists. Many would disagree. Although 700,000 new homes remain unsold, house prices have fallen by only 13%.

And what about growth? Famously optimistic, Mr Zapatero points to studies suggesting that Spain will grow faster than the EU average as early as 2013. But elections are due next year, and polls suggest that his Socialist party will no longer be in charge. Reform has come too late.

Index | Europe

Greece's heavy debts

Repayment days

Feb 3rd 2011 | *ATHENS* | from PRINT EDITION

Despite impressive austerity, Greece may still be unable to repay all its debts

GREECE'S prime minister, George Papandreou, claims that his country has clawed back credibility with the markets after nine months of austerity. His economic team suggests Greece may be able to borrow again, despite its "junk" rating. They are cheered that the payback period for last year's euro110 billion ($150 billion) loan from the European Union and IMF is being extended, perhaps to 30 years, and the interest rate cut.

Yet ordinary Greeks are not happy. From pharmacists angry at losing their 35% profit margin on prescription drugs to train drivers facing mandatory transfers to other jobs, resistance to reform is stiffening. A daily list of strikes and protests appears on local websites. And middle-class professionals are just as cross. Doctors staged a sit-in at the health ministry this week because they had not been consulted over health-care cuts. Walk-outs by lawyers, architects and civil engineers loom as the finance ministry draws up a law to abolish their professional privileges.

More pain is certainly on its way. Unemployment, now at 13.5%, is forecast to hit 15%. The economy could shrink by 3.5% this year, after an estimated 4.2% contraction in 2010, according to KEPE, a state-run research institute. Investment is on hold; a new incentives law has been delayed, and banks are reluctant to lend so long as Greece runs the risk of default.

Mr Papandreou's commitment to overhauling the public sector is not in doubt, yet the pace of reform remains slow. On its trip to Athens, the "troika" (the European Commission, IMF and European Central Bank) has found that Greece has missed deadlines for cost-cutting and revenue-raising because of bureaucratic foot-dragging. Louka Katseli, the labour minister, has publicly criticised the troika's programme. Both a second round of pension reform and measures to make it easier to hire and fire are making only slow progress.

Such delays are preventing Greece from hitting its targets of raising revenues by 5% and cutting the budget deficit as a share of GDP by another 2.2 points, after a six-point reduction in 2010. Signs that Greece is slacking off may undermine any chance of arranging an orderly debt restructuring as part of the planned Franco-German "grand bargain" in the euro zone.

Greece hopes to be allowed to buy back debt held by the ECB at a 25% discount, using money borrowed from the European Financial Stability Facility. Private bondholders may be offered a 10-15 year extension of maturities and a lower interest rate. If some such restructuring went ahead, Greece's debt burden could be trimmed by 20-30 percentage points. Yet it would still be 130% of GDP, the highest in the euro zone (see chart).

Even Greece's supporters doubt if such a huge debt can ever be repaid in full. Annual budget surpluses would have to be intolerably high. There is talk of mass privatisations of public property (although Mr Papandreou balks at selling off any Aegean islands). Even so, nothing is likely to be big enough to make the threat of default go away.

Index | Europe

Italy's ineffective opposition

In search of a leader

Feb 3rd 2011 | *ROME* | from PRINT EDITION

How Silvio Berlusconi is helped by having a fragmented and weak opposition

FOR the daughter of a penniless immigrant, Karima el-Mahroug (otherwise known as "Ruby the Heartstealer") has had quite an impact on her adoptive land. The Moroccan runaway-turned-dancer's friendship with Italy's prime minister, Silvio Berlusconi, has put him in a perilous fix. Prosecutors in Milan are expected soon to seek his indictment on charges of paying an under-age prostitute and abusing his position to hide the fact-offences that in Italian law could carry a combined jail sentence of as long as 15 years.

The scandal over Ms el-Mahroug and her suspected presence at allegedly dissolute "bunga-bunga" parties at the prime minister's villa has also changed Italy's economic policy. Or rather, given it one. On January 31st, after nine years as prime minister, Mr Berlusconi at last spoke like the liberal he has often claimed to be. He said he wanted to drop from the constitution a clause imposing social obligations on entrepreneurs. He promised tax breaks and deregulation for Italy's lagging south. Less liberally, he also vowed to bring together representatives of employers, trade unions and local authorities to debate an action plan to secure annual growth of 3-4% over five years. As a first step, he offered co-operation with the opposition.

Nice words. But do they mean anything? Mr Berlusconi announced his plan without consulting, or even informing, senior ministers. It seemed to have been conjured up just to dispel the impression that his government has been paralysed by sex scandals. The opposition parties flatly rejected his offer. But in doing so they allowed Mr Berlusconi to brand them as churlish, something they can ill afford.

Pollsters agree that the "Ruby" affair has eroded the prime minister's already battered standing. One sounding for *larepubblica.it*, a website, found his approval rating down a full five points in January, to 35%. But the polls also suggest that Mr Berlusconi's flagging popularity is translating neither into less support for his party nor into more backing for the opposition.

Large numbers of Berlusconi voters disapprove of him (13%, according to a poll for *Corriere della Sera*, a newspaper). Yet few seem ready to desert his People of Freedom movement. This is particularly striking now that they have the alternative of a centre-right opposition as well as the centre-left: a tentative alliance between followers of Mr Berlusconi's former lieutenant, Gianfranco Fini, with Pier Ferdinando Casini's Christian Democrat Union of the Centre, and a smaller party led by a former mayor of Rome, Francesco Rutelli.

But the creation of a broader opposition has only accentuated what voters identify as its main weakness: its heterogeneity, and thus susceptibility to disunity if it were ever elected. Together, the parties ranged against Mr Berlusconi account for almost 60% of voters' preferences. But at one extreme they offer post-fascism, and at the other Marxism blended with environmentalism and feminism.

The recurrent problem of the opposition has been that not enough Italians are willing to vote for a party of the moderate left like those that have held power for long periods in other European countries. Italy's Socialist party was largely destroyed by the corruption scandals of the early 1990s, so the centre-left is nowadays represented by a fundamentally unnatural coalition of former progressive Christian Democrats with former Communists, who not surprisingly find it hard to agree on clear common policies. Their joint party, the Democratic Party (PD), has proved incapable of rejuvenating its leadership and breaking free of the cronyism that blights Italian politics. The PD is heavily influenced by two men, Massimo D'Alema and Walter Veltroni, who have (like Mr Berlusconi) been in leading positions since the mid-1990s. The party leader, Pierluigi Bersani, who was Mr D'Alema's candidate, is a personable, capable man. But he seems to lack the magic ingredient that enables politicians to break through to a wider electorate.

This is not his only problem. On January 26th Mr Bersani called off a national assembly due the next weekend after claims that the winner of a ballot to choose the PD candidate for mayor in Naples had been helped by local organised crime (with Chinese immigrants paid euro5, about $7, a vote). This will scarcely persuade Italians that there is an alternative to the tarnished, ineffectual Mr Berlusconi.

Index | Europe

Charlemagne

Out of the limelight

Feb 3rd 2011 | from PRINT EDITION

Europe's new foreign-policy machinery faces its first test. Time for its boss to perform

IN THE year since she became the European Union's foreign-policy chief, Cathy Ashton has developed an impressive line in rebuttal. Didn't rush to Haiti after its earthquake? "I don't want to be a disaster tourist." Wasn't at September's launch in Washington of new Israeli-Palestinian peace talks? "I chose, rather than being in the second row on the White House lawn, to be at the heart of our discussions in China." Not big enough to stop the traffic? "My job is to keep traffic moving. I'm not interested in the limelight."

Plucked from obscurity for the job, the British baroness has faced endless criticism. French papers bemoan a British stitch-up of senior foreign-policy jobs, British ones accuse her of going AWOL in the fight for national interests. Everybody complains of her inexperience, media-shyness and preference for diplomacy-by-communique. Even the Iranian press took the liberty of touching up her picture to give her a more demure neckline.

After a year of bureaucratic in-fighting, the new European External Action Service (EEAS) formally came into being on January 1st. Not a moment too soon. The EU faces upheavals all round its borders: fraudulent elections and suppression of protests in Belarus, political violence in Albania and, now, the spread of anti-government revolutions across the Arab world.

When she has not been preoccupied with organisation, Lady Ashton has mostly devoted herself to managing slow nuclear talks with Iran and revising the EU's long-term relations with "strategic partners" like America, Russia, China and India. Now she must respond to fast-moving events on the doorstep. The fate of north Africa is crucial for Europe, because of both migration and terrorism. Yet America rather than Europe has made the running. An American special envoy was in Tunis before a European one; another envoy has been talking bluntly to Egypt's president.

On January 30th, as the protests in Egypt gathered momentum, America's Hillary Clinton appeared on no fewer than five television programmes to call for an "orderly transition" to full democracy. The day before, the leaders of Britain, France and Germany had issued a joint statement advocating "a process of transformation which should be reflected in a broad-based government and in free and fair elections." Carl Bildt, the hyperactive Swedish foreign minister, tweeted that "free, fair and open presidential elections would give a way forward for Egypt." But Lady Ashton went unseen and unheard. She was busy on the telephone to foreign ministers before they met in Brussels on January 31st. But she did not call for elections until the end of the meeting. Why? Because, say her officials, all 27 ministers had to agree.

Such nuances matter little to the crowds in Tahrir Square. EU diplomacy is cumbersome, and Lady Ashton lacks the political touch to speak clearly when the moment demands it. She is not one to lead from the front. That suits most foreign ministers. Their role in the EU has been reduced. Having lost the right to attend all EU summits, they have no wish to be upstaged by the baroness.

In fairness, no country can claim to have responded fast to the protests in the Arab world. France should have understood Tunisia. But just days before its president fled the country, Michele Alliot-Marie, the French foreign minister, tactlessly offered the *savoir-faire* of French security forces to both Tunisia and Algeria. Lady Ashton's caution has at least spared her any such gaffe.

For many, the task of EU foreign-policy supremo is a "mission impossible". She must meld three jobs: the external-relations portfolio of the European Commission, with responsibility for aid and neighbourhood policy; the high representative of the council, speaking for governments and overseeing EU military operations; and chairing the council of foreign ministers (formerly a job for a rotating president). And she must do all this without any full-time deputies to share the burden.

Her staff, drawn from disparate bits of the EU bureaucracy and national ministries, is scattered across eight buildings. Many posts remain unfilled. "It can only get better," mutters one diplomat. Even so, Lady Ashton has won admirers, not least for perseverance. She studies her briefs, she chairs meetings effectively and she is strong on personal rapport. "There is no foreign official today who has better relations with Hillary Clinton than Cathy Ashton," says another diplomat.

Lady Ashton also has the bad luck to have taken over just when the EU was losing one of its most powerful weapons: the lure of membership to encourage reform. Apart from Croatia and, eventually, a few Balkan states, EU enlargement has more or less ground to a halt. So Lady Ashton has had to fall back on the more familiar tools of diplomacy, development and defence. But hers is an uneven trident: she has lots of EU development money, but her diplomatic machine is still a prototype and she has only a rudimentary military-planning outfit. It will take years to judge the effectiveness of the external action service.

A not-so-high representative

By both her mandate and her personal inclination, Lady Ashton is a servant of national governments. In a union of sovereign countries, prerogatives in foreign affairs are jealously guarded. Even so, the EU has greater scope for common action. Britain, France and Germany acknowledged as much by their statement on Egypt. The more that they speak as one, the more they can hope to be heard.

Because she needs to find a common position among 27 countries, Lady Ashton will never be as nimble as the foreign minister of a single country. But she makes her task harder by denying herself the power of public advocacy. If she wants the EU to be heard, she must act with more conviction. After all, she can come out with good one-liners when she has to.

Economist.com/blogs/chalemagne

Londonism and its adherents

The capital's creed

Feb 3rd 2011 | from PRINT EDITION

Pro-finance, pro-immigration and hungry for investment, London and its politicians have developed an ideology of their own

ONCE the world's largest port, London's docklands had become so desolate by the 1980s that Stanley Kubrick used them as a backdrop for his Vietnam war film "Full Metal Jacket". Thanks to government investment and private enterprise, the area is now a shimmering success story. Canary Wharf, a skyscraper cluster, hosts bankers from around the world. City Airport, opened in 1987, is the easy option for business travel to the continent. The Docklands Light Railway and an extension of the Tube have connected the area to the heart of the capital. The once-derided Millennium Dome is now the busiest music venue in the world.

The docklands are a monument to what could be called Londonism. Since the creation of the capital's mayoralty in 2000, a distinct ideology has congealed around that office. Some of it is recognisably right-wing: it embraces high finance, even during the banker-bashing furore. Some of it is conventionally left-wing: Londonism calls for state spending on infrastructure and a liberal line on immigration. Essentially, it is a commitment to relentless growth and openness. The city long ago made the transition from mere capital to global hub. Now it has a political philosophy to match.

The two men who have held the mayoralty so far-who are also the main candidates for the mayoral election next year-have been Londonists. Labour's "Red" Ken Livingstone, who ran the city until 2008, was actually pragmatic about capitalism. He approved private developments and enjoyed surprisingly good relations with the City. At the same time, he used his bully pulpit to ask Whitehall for infrastructure money and an open immigration policy.

His successor, the Conservative Boris Johnson (pictured), has been similarly heterodox. Mr Johnson has publicly deplored the new 50% top rate of income tax, introduced by the previous Labour government and retained by the Conservative-Liberal Democrat coalition, which he fears will repel wealth-creators. He bashes those who bash bankers, pointing to the jobs that the financial sector creates and the tax revenues it generates. He successfully hounded the government to go ahead with Crossrail, a new east-west underground train system for the city (though Mr Livingstone can claim most of the credit for the project).

Some suspect Mr Johnson of positioning himself to replace David Cameron, the prime minister, as Tory leader one day. Mr Johnson is palpably ambitious, but some of his views seem likely to alienate the Tory grassroots: for example, he complains loudly that the government's restrictions on immigration risk limiting London's access to foreign talent.

City state

There are important differences between the ways Mr Johnson and Mr Livingstone have approached the mayoralty. Confronted by the lack of independent fiscal levers at the mayor's disposal, Mr Livingstone saw economic growth as a way of achieving redistribution by other means. He adeptly used planning laws to encourage projects that included affordable housing, transport upgrades and other social goods.

The coming electoral clash between the two will emphasise their differences. But whatever its outcome, Londonism has become a self-reinforcing ideology that will probably outlive both men's careers. The more open and multifarious the city becomes, the more it attracts people who want it to stay that way. "London", says Tony Travers of the London School of Economics, "increasingly defines itself by having moved a step farther along the path of cosmopolitanism than anywhere else on the planet." The most interesting aspect of the city's bid for the 2012 Olympics was not its victory but the nature of its campaign, which sold London as the ultimate global city rather than a British one.

Although many major cities aspire to growth and globalism, London has an easier time achieving both than its western rivals. Its location is an obvious advantage over New York. Europe is on its doorstep; Beijing is not that much farther away than Wall Street; time differences allow London to do business with both in the same day. Then there is its own geography: it is easier for diverse lifestyles to co-exist in a sprawling city of distinct villages than in a relatively concentrated metropolis such as either New York or Paris. The latter is also hamstrung by its beauty; daring new developments have a tougher time getting approved than in hotch-potch London.

Of course, Londonism carries risks. Mass immigration has caused some social friction in the outskirts-though for the most part the city remains strikingly unsegregated. A laissez-faire approach to lifestyles can be taken too far. London has been an alarmingly relaxed harbour for extremists: as mayor, Mr Livingstone hosted Yusuf al-Qaradawi, a controversial cleric. The financial crash brought home the downside of a vast banking sector.

Then there is the challenge of one-city dominance. National politicians oscillate between a zeal to prop up Britain's regions and a resigned acceptance that scarce investment must go to its behemoth of a capital. The latter has been winning of late, hence Crossrail, the high-speed connection to the continent, and the upgrades of London's bus and Tube networks. A bicycle rental scheme-conceived by Mr Livingstone, implemented by Mr Johnson-is just the most eye-catching of the city's recent transport improvements.

There is a cultural divide, too. Before the financial crisis, Londonism seemed indistinguishable from a broader British take on the world: freewheeling, relaxed about globalisation. The overall British view has now soured, while London's remains outward-looking. Londonism seems more sensible in a world in which Britain cannot be too picky about how it earns its living, and dynamic people will be warmly welcomed elsewhere. It is a fittingly mongrel ideology for the cosmopolis.

Index | Britain

The Olympic stadium

Extra time

Feb 3rd 2011 | from PRINT EDITION

Proximity versus profits in the first Olympic tussle

Two teams, one goal

WEST HAM UNITED, a struggling east London football team, does not beat Tottenham Hotspur, a glitzier Premier League side from the north of the capital, all that often on the pitch. But the Hammers are hoping to pip Spurs in their tussle for the tenancy of the Olympic stadium after the games in London next year. The Olympic Park Legacy Company (OPLC), the public body that will inherit most of the facilities, is weighing up the rival offers. It is expected to make its recommendation to the government and the mayor of London shortly.

The Hammers have home advantage, having played at Upton Park, 4km from the site, since 1904; Spurs hail from twice as far away. (Leyton Orient, a team two divisions below, are closest of all-and are aghast at the idea of either big club invading their manor.) West Ham's bid is a joint effort with the local council, Newham, which is willing to lend pound40m ($64m) of the pound95m cost of cutting the stadium capacity from 80,000 to 60,000 and extending the roof, both needed to make the venue football-ready. The pair would honour a promise in London's bid for the games that the stadium would retain "athletics at its core" by keeping a running track. They hope to host concerts and cricket and rugby matches.

Tottenham's plan is harder-nosed. Football fans dislike running tracks, so Spurs would ditch it. The club would pay instead to spruce up the existing, dilapidated home of British athletics, at Crystal Palace, 14km away in south London. Indeed, it would scrap the stadium entirely and build an entirely new 60,000-seat structure. The total cost would exceed pound300m.

Spurs are impatient for a bigger ground, to bring in more money and sustain their recent success. White Hart Lane, the team's home in Tottenham since 1899, holds 36,000, and is full for every match: 35,000 people are paying pound10 a year just to be on the waiting list for a season ticket. Spurs have long had plans to expand there, but the bureaucracy involved is costing too much time and money. Hence the attraction of leaving north London. In response to claims that the move would inconvenience supporters, the club points out that its well-dispersed fans already travel 65km on average to home games.

This scheme angers lots of people, not least Lord Coe, chairman of the committee organising the games and twice an Olympic champion. But the bid has commercial allure, which matters as the OPLC is expected eventually to earn money for the Treasury (and repay the national lottery fund, which was raided to finance the games). The Hammers, meanwhile, are near the bottom of the league and at risk of relegation, which would make filling a big stadium difficult: Harry Redknapp, Spurs' team manager, has said the stadium might become a "desolate graveyard"-remarks especially hurtful for the Hammers, since he both played for and managed them. But West Ham is the more local club and is offering to keep the athletics promise.

So the OPLC faces a hard choice between proximity and profitability. Still, at least it is thinking ahead. A second-hand stadium can be a burden, as the two most recent Olympic cities have learned. Venues in Athens, host in 2004, were left to rot. Beijing's Bird's Nest, the showpiece of the 2008 games, is now mainly a tourist attraction. It has been woefully underused for sport. London's site should avoid that fate-whoever ends up calling it home.

Index | Britain

Investment-banking fees

Vexed in the City

Feb 3rd 2011 | from PRINT EDITION

When businessmen issue new shares, they are prey to smooth-talking bankers

THOSE who think that City pay is unrelated to "talent" must concede that investment bankers at least have a gift for lifting hefty sums from corporate clients without embarrassment. Britain's executives, it seems, are all too easily seduced by the smooth patter, tailored suits and solicitous manners of their brokers. A report by the Office of Fair Trading (OFT) published on January 27th said the high fees charged for helping firms raise fresh equity capital in part reflects an imbalance in know-how between finance types and less savvy businessmen. There are enough banks to ensure that competition in underwriting deals ought to be vigorous, says the OFT. The reason charges are so high is that firms issuing equity often fail to drive a hard bargain with their bankers.

Shareholders moan that banks levy fat fees to underwrite "rights issues" even though the risk of a deal failing is minimal. In a rights issue, a firm seeks extra funds from its investors in proportion to their current shareholding. To entice those investors to take part, the issuer offers new shares at a lower price than its existing shares are changing hands for. The trend in recent years has been towards ever-larger discounts: 15% might be typical in the 1990s, but 30% or higher is now common.

In principle a big discount does not matter to shareholders if they all take up the rights to new shares in full. They only undercut themselves as holders of the dearer "old" stock. But low-price rights issues imply fewer risks for the investment

banks sponsoring them: there is less chance that an underwriter would be left holding unsold stock at a loss. Even so, banks are charging more than when discounts were smaller. Average fees had risen to over 3% of the deal's value by 2009, a bumper year for rights issues (see chart). The OFT found that higher fees and discounts were not explained by the risks of jumpy stockmarkets.

Why do executives pay up? Rights issues are rare, so businessmen are not well-placed to judge the appropriate fee. Price is not the main concern when the life of the firm might be at stake: around two-thirds of British equity issues in 2009 were to shore up firms' finances. So equity underwriting is often a "distress" purchase, like a funeral. Buyers are inexperienced, under pressure to act quickly, and have little time to consider terms. Discretion, competence and a talent for hand-holding are prized of underwriter and undertaker alike. Haggling over fees seems almost distasteful, especially for squeamish Brits who tend to pay what is asked and resent it later.

There is a further constraint on an issuer's ability to get a better deal. The need to act quickly and quietly often leads the firm to its corporate broker-the investment bank that advises the company on its business strategy and finances, and which provides a link with investors. The strength of that tie makes it harder for firms to shop around and play one investment bank off against another. Banks, for their part, view the fees charged for capital-raising in part as a pay-off for the effort and expense put into their corporate-broking work. In their defence, bankers say that competition for brokerships is so intense that such services are usually provided free.

The OFT stopped short of criticising this arrangement, though it reckons clarity about what fees are actually buying might allow issuers to haggle. Investor groups are more forceful. Douglas Ferrans, author of a report on equity underwriting for the Institutional Investors Council, says the bundling of charges for corporate-broking services with underwriting fees raises the suspicion that shareholders are paying over the odds. If unbundling fees means firms having to pay a fat retainer for advisory work, so be it. It would be better if fees for ongoing services were treated as running costs and not rolled-up in a one-off charge on shareholders, he says.

The trouble is, the status quo suits both bankers and executives, who can enjoy the City's attentions at little cost. Clarity on fees might lead to red faces all round.

Index | Britain

Corporate misbehaviour

Hot, greasy potato

Feb 3rd 2011 | from PRINT EDITION

The implementation of a new anti-bribery law is delayed, again

Does this count as a "facilitation payment"?

WHEN Tony Blair intervened in 2006 to call off a police inquiry into allegations that BAE Systems, an armaments firm and Britain's biggest manufacturer, had paid bribes to secure a decades-long, pound43 billion ($70 billion) arms deal with Saudi Arabia, he cited national-security grounds. Anti-corruption campaigners decried the move as further evidence of Britain's laxity over allegations of corporate misbehaviour. In 2008, in a bid to restore the country's tarnished reputation, the previous Labour government began drafting a new law intended to clamp down decisively on backhanders.

Both the Liberal Democrats and the Conservatives, now allies in the coalition government, backed the bill in opposition; it duly became law with cross-party support last year. The act was due to come into force in April, after the publication in January of guidelines on how it should be interpreted. It will impose stiff penalties on companies convicted of paying bungs, such as unlimited fines and, in some circumstances, prison sentences for directors.

Yet on January 31st the Ministry of Justice said it had decided to postpone the act's implementation. The rules will now not come into force until at least three months after the department publishes a new, revised set of guidelines-but it has said nothing about when that might be.

The delay is a relief to business groups such as the Confederation of British Industry, which frets about how the law will work and has lobbied for more clarity than the original guidelines provided. Its critics do not want to look like they are saying: the law will make it harder for us to pay bribes and so will be bad for business (although it might be). Instead they have focused on the alleged fuzziness of the rules. One of the new offences is failure by a firm to prevent third parties (such as contractors or agents) greasing palms on its behalf. One of the possible legal defences is for a company to prove that it had "adequate procedures" to prevent bribery. Given the difficulty of babysitting local contractors, who are likely to be unfamiliar with British law, firms are understandably keen to know what those procedures should be.

Another sticking point concerns so-called "facilitation payments", a phrase that is sometimes a euphemism for bribes but can also refer to small, unofficial payments that are seen as customary in some countries. America's Foreign Corrupt Practices Act-generally reckoned to be fairly strict-allows such handouts, popularly referred to as "grease payments", in some circumstances. In theory, Britain's new law forbids them, though the government has said cryptically that "non-criminal" cases would probably not be prosecuted.

Where business sees a welcome rethink, anti-corruption campaigners see a climbdown, the latest in a long saga of delays and foot-dragging by British governments of every stripe. Mark Pieth, the chairman of an OECD working group on bribery, warns that British firms might face international sanctions if the delays continue. Even when the regulations do finally come into force, they might not be particularly rigorously policed: Lord McNally, the justice minister, recently admitted that the government had budgeted just pound2m to enforce the new law.

Index | Britain

Employment tribunals

Sacking in the age of Dave

Feb 3rd 2011 | from PRINT EDITION

A proposed change to workers' rights angers lawyers and unions

WHAT will it be like to sack and be sacked in David Cameron's Britain? Quicker and easier than it has been, at least for employers, if the coalition government succeeds in a reform intended to cut the amount of workplace litigation. Vince Cable, the Liberal Democrat business secretary, has proposed changes to the rules on when and how workers can turn to the courts if they think they have been unfairly dismissed.

The government is keen to show it has a strategy to promote economic growth-and ostensibly these changes are part of it. Mr Cameron says the existing rules, under which dismissed workers can go to a tribunal if they have been employed for more than a year, are "barriers to growth", and that the threshold should be doubled. Most controversially (not least with left-leaning Lib Dems), Mr Cable proposes that all those bringing a claim should pay a charge; the figure mooted is pound500.

Employers' groups say that they are plagued by vexatious or weak claims and that, at an average cost of pound4,000 to defend, tribunals are a drain on time and resources. Certainly the number of claims is climbing-to 236,000 last year, a rise of 56% since 2009, though some of that might be accounted for by increased job losses, and worries about finding new work induced by a recessionary climate.

Critics see the move, on which the government is consulting until April 20th, as another Conservative-led bid to water down employment rights in the name of boosting efficiency. Bob Crow, the hardline leader of the Rail, Maritime and Transport Workers' union, predicts "a green light for workers to be dumped out on the cobbles just before they get 24 months service under their belts". The issue will be another theme for a resurgent union movement eager to take on the government.

But at a time when fear of unemployment is rife, the unions will have allies. Chuka Umunna, a rising Labour MP, complains that the proposed fee "will disproportionately affect the less well-off". Cherie Blair, a longtime employment and human-rights lawyer, points out that the current threshold for employees to bring claims is a compromise between the six months set by the Labour government in 1975 and the two-year threshold brought in by the Thatcher administration in 1985. Tony Blair (Mrs Blair's husband) fixed on a period of a year in 1999. Mrs Blair reckons that is a sensible level "if you accept that there should be an even-handed relationship, with mutual responsibilities, between the employer and employees".

Cultural shifts in politics, as well as economic ones, inform the argument. During the New Labour years, lawyers (such as Mr Blair himself and Harriet Harman) controlled the commanding heights of government; many started out as employment counsels. Workers' rights expanded-as did the number of tribunal cases. Many Tories, by contrast, are inherently suspicious of lawyers. Business bodies back them up. "Extending the qualifying period for unfair dismissal will give employers more flexibility and confidence in hiring staff," says John Cridland of the CBI.

So Mr Cable has allies too. He is going to need them.

Index | Britain

The row over electoral reform

The ermine flies

Feb 3rd 2011 | from PRINT EDITION

The government and the House of Lords almost come to blows

A NAKED scrap for party advantage, dressed up as a principled defence of democracy, and fought in the once-courtly chamber of the House of Lords. That roughly describes the unedifying scenes of recent weeks, as peers wrangled over a bill that would make two big reforms to the House of Commons: by calling a referendum on changing the way MPs are elected, and by drawing new constituency boundaries that would shrink the Commons from 650 to 600 seats.

For 17 days (including an all-night session that saw peers snoozing on camp beds), Labour peers clogged the upper house with what looked a lot like filibuster tactics. The delay threatened to disrupt the scheduling for the referendum, which the Conservative-Liberal Democrat coalition wants to hold on May 5th. A compromise was eventually reached on January 31st, but not before the government had hinted at a remedy cruder still-an unprecedented "guillotine" motion to curtail discussion of the bill. It was an empty threat: it was soon clear that the independent peers who hold the balance of power in the Lords would oppose any assault on the cherished idea that the House regulates itself.

The Tories say Labour has behaved disgracefully and accuse a band of recently ennobled Scottish ex-MPs of importing the rough ways of the Commons to the upper house. Moderate Labour types admit the Scottish new boys were rude. But they say the Tories are the real vandals, for ramming constitutional changes through at indecent speed.

The bill causing all the fuss is a mess. It offers something the Lib Dems badly want: a chance to junk the existing first-past-the-post (FPTP) voting system-though the Lib Dems are lukewarm about the replacement on offer, the "alternative vote" (in which voters rank candidates, and if nobody wins a majority of first preferences, the subsequent preferences of the least popular candidates are redistributed until someone crosses the 50% threshold).

Most Tories oppose ditching FPTP (as do many Labour MPs), because it favours bigger parties. But the Tories are keen on the bit of the bill that would redraw parliamentary boundaries to make them much more equal in terms of voter population. At Westminster, it is widely believed that the planned boundary changes could cost Labour 20 seats, because Labour MPs are more likely to represent seats in places such as the inner cities or Wales, which have smaller voter populations. For reasons of coalition management, the two changes have been lashed together.

Strip away the bluster, and this was a fight about electoral advantage. It is hard to say who has won. The bill is moving again, putting the May 5th referendum back on track. But the government conceded that some sort of public appeals will be allowed as boundaries are redrawn, sparking Tory fears that the new seats might not be ready for a general election in 2015. Another concession might see an independent review of whether 600 MPs is the right number. But the loser is easy to identify: the reputation of the House of Lords.

Index | Britain

A referendum in Wales

More where it came from

Feb 3rd 2011 | *ABERYSTWYTH, CARDIFF AND MERTHYR TYDFIL* | from PRINT EDITION

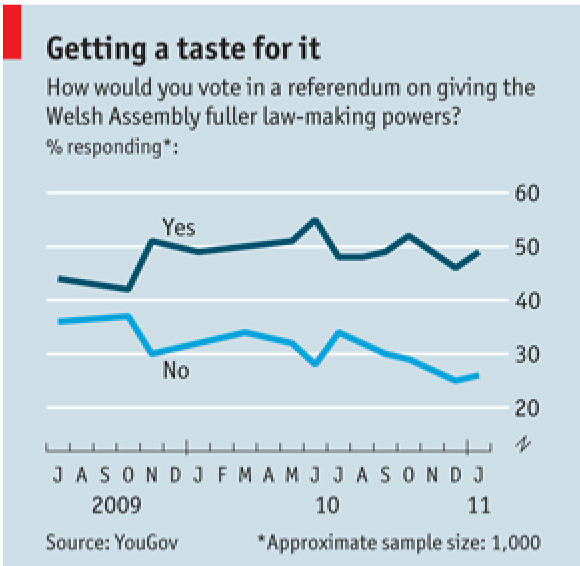
The Welsh are poised to vote for further devolution. But it is hard to see why

Down in the valley

IT'S not easy, on a cold day in Cardiff, to find people who know about the referendum on March 3rd, and even harder to find anyone who cares about it. But the vote, on whether more powers should be transferred to the Welsh Assembly, is a constitutional milestone, not only in Wales's own search for political identity but also in Britain's broader experiment with regional autonomy. The campaign is hotting up just as bad news casts doubt on just what devolution has done for Wales, once a proud, prosperous place but now a struggling one.

Take law and order. A Home Office crime-mapping venture, launched on February 1st, showed four Welsh streets among the most violent ten in England and Wales. A few days before, 26 hard-drug dealers were sentenced in Swansea.

Then there is education. On January 25th Estyn, the Welsh schools inspectorate, said that almost a third of schools were deficient, and that two-fifths of pupils entered secondary school with delayed reading skills. A string of employment setbacks have also made the news. German-owned Bosch, a car-parts maker, is closing its plant in Miskin and moving production to Hungary. Other factories are shutting too.



Against this depressing background, support for devolution has been solidifying (see chart). In 1979 the Welsh rejected self-government almost four-to-one. In 1997 they accepted a limited version of it by the narrowest of margins (the Welsh Assembly has less power than Northern Ireland's or Scotland's Parliament). Polls now indicate that the proposal to give the assembly more powers will whistle through on March 3rd, if on a low turnout.

Why? Nick Bourne, the leader of the Welsh Conservative Party, opposed devolution in 1997 but now supports it: "I disagree with a lot of Assembly decisions, but the system is working well. It meets the legitimate needs and aspirations of a nation, and Wales is a nation." Some say devolution has given them greater access to decision-makers. Others praise the proliferation of powerful women, the push for Welsh-language education and the freedom to solve Welsh problems in a Welsh (essentially, left-of-centre) way.

Yet Kevin Morgan, of Cardiff University, who led the Yes campaign in 1997, says he has been disappointed by the poor economic dividend that devolution has brought (though he intends to vote Yes again). Not only does Wales remain the poorest region of Britain, with output per head less than half of London's: the gap with the rest of the country has increased.

Recent employment patterns also give cause for concern. As manufacturers have departed for places with cheaper labour, the public sector has mostly taken up the slack. Last year it employed 25.7% of Wales's workforce (a smaller share than in Northern Ireland, but bigger than anywhere else in Britain). Unemployment is nonetheless 8.4%, compared with a national average of 7.9%-and public-sector budget cuts have yet to be fully felt.

Should devolution have done better? Labour has ruled since the devolved government was set up in 1999, alone or in coalition (since 2009 with Plaid Cymru, the Welsh nationalist party). A decade is not long to reverse the effects of de-industrialisation. Ieuan Wyn Jones, deputy first minister and Plaid Cymru's leader, says local politicians "don't have the macroeconomic levers. We don't have taxation powers."

But there are other measures. Many business types say the abolition in 2006 of the Welsh Development Agency, the bearer of Wales's brand to the world outside, was misguided. Wales has only one FTSE-100 company: Admiral, an insurance firm. Its business start-up rate, falling since 2004, is among Britain's lowest.

On education there is even more cause for recrimination. In 2001 the devolved government ditched school league tables; it has also replaced some standardised tests with teacher assessments, making robust comparison of schools impossible. Such policies, and the relaxing of standards that accompanied them, took almost two points a year off GCSE grades per student, according to researchers at Bristol University. Poor pupils suffered most.

All four main political parties now support more devolution. Carwyn Jones, the Labour first minister, wants to speed up law-making, which he says is the slowest in Britain. For Kirsty Williams, leader of the Welsh Liberal Democrats, the important thing is to make the Welsh government more accountable. "Under the current system it can hide behind its lack of authority," she says, "blaming Westminster for all the problems". Roger Scully, of Aberystwyth University, thinks a Yes vote could also change how Wales is seen in London, forcing politicians there to take it more seriously when, for example, the vexed question of renegotiating the formula that determines Wales's block grant comes up.

The case for voting No is rarely heard. But Rachel Banner of True Wales, a pressure group, says devolution is failing on the economy and failing to disperse power to the people. Centralised authority has simply moved down the motorway

from London to Cardiff, she says: "It's as hard for politicians to turn down more power as it is for bankers to turn down bonuses."

For all the economic gloom and stultefying political consensus, there are bright spots. Thomas, a 17-year-old in Merthyr Tydfil, doesn't need Iain Duncan Smith, Britain's work and pensions secretary, to tell him to get on a bus to look for work; he just hopes he'll be able to find some in Wales. A Welsh-speaking small businessman in Cardiff thinks the Assembly is only a talking shop, but says his business is looking up. And the handsome National Library, high above Aberystwyth's bay, a treasure-trove of Welsh history, is full of families on a lovely weekend morning.

Index | Britain

Bagehot

Lost in the woods

Feb 3rd 2011 | from PRINT EDITION

What a furore over forests says about David Cameron's vision of Britain

AS CRITICS of government policy go, Robert Emberson and Giles Knowles are not very ferocious. Mr Emberson, a retired solicitor from the Chilterns-a pretty slice of commuterland to the north of London-says he "can't see the point" of a government proposal to privatise his local woodland, Wendover Woods. Mr Knowles, a retired teacher, volunteers alongside Mr Emberson at the woods, clearing scrub and brambles twice a month. Mr Knowles is "not very keen" on a sell-off.

Their mild dismay might seem insignificant, beside the nationwide rage provoked by the government's proposals to sell or lease large tracts of English woodland managed by the Forestry Commission, a public body. A YouGov poll found 75% of respondents opposed the sale of English forests. Hundreds of thousands of people have signed an online petition organised by a leftish campaign group, 38 Degrees, opposing what it claims are plans that could see "our national forests" fenced off, logged or turned into holiday villages. Right-wing commentators have condemned the plans as un-conservative vandalism. Grandees including the Archbishop of Canterbury, the Astronomer Royal and the Poet Laureate signed an open letter denouncing forest sales as "unconscionable". Still more ominously, seismic rumblings of discontent have been heard from the National Trust, a charitable titan with 3.7m members.

For all that-and though this might sound odd-David Cameron's coalition government should be just as worried about the quiet anxiety of folk like Mr Emberson and Mr Knowles. They are precisely the sort of people he needs to fulfil his vision of a British society built around voluntarism and civic pride.

The noisiest protesters are a lost cause. At its roots, the forestry plan is a privatisation. In the words of the cabinet minister in charge, Caroline Spelman: "the Forestry Commission sells Christmas trees, for goodness sake. What is the state doing selling Christmas trees?" Privatisations are often unpopular in Britain at first; they prove their worth later, when (with luck) it can be shown they have left the country better off. Most British woodlands are already private and are covered by tough planning rules and strict regulations on tree-cutting. Whatever protesters say, owners cannot build golf courses on a whim. Public footpaths are protected by law (though the rules are weaker when it comes to horse and bicycle access, or maintaining car parks).

But the forestry sell-off also represents something more ambitious: it is supposed to be a flagship example of Mr Cameron's "Big Society" at work. A government consultation paper on the forestry plans explicitly talks of "shifting the balance of power from 'Big Government' to 'Big Society'", as the state gives way to a locally responsive patchwork of "civil society, businesses and individuals." It is here that the real problems start.

Mrs Spelman, who is secretary of state for the environment, food and rural affairs, admits that the government is feeling political pain over forests, but says the "principal reason" is "wild speculation" by the media, such as scare stories suggesting ancient forests are about to become golf courses. She is right, but she needs to stop whining: the government bears much of the blame. Some bright spark has dreamed up an absurdly complex talking point for ministers-that the Forestry Commission has a conflict of interest as a regulator that also sells 70% of timber entering the British market. The rest of the time, they talk about how "heritage" forests such as the New Forest and the Forest of Dean will be given to charities, with public money to cover operating costs. Surely bodies such as the National Trust can do a better job running forests than the Forestry Commission, Mr Cameron told the House of Commons on February 2nd? But this line is a cop-out: the National Trust cannot run every wood in the public estate.

Colin is not the Leviathan

To be blunt, the government is failing wretchedly to sell the Big Society. For help, the prime minister might like to visit Wendover Woods, a 325-hectare slice of greenery near Aylesbury. For a Big Society fan, the woods come all but gift-wrapped with a bow. This close to London, their relative tranquillity is prized by locals. Some 350,000 visitors are drawn each year by foot, cycle and horse trails, a rustic cafe and "Go Ape!", a commercial aerial playground. Between car park fees and rents, the woods deliver a small surplus to the Forestry Commission's coffers. It could be a case study for localism: under local management, all that revenue would stay in Wendover Woods. Since April 2009 volunteers from the Chiltern Society, a local charity, have worked to clear scrub and brambles there, saving a crumbling Iron Age fort.

Yet, on a drizzly morning this week, those same volunteers are wary of a local charity taking over, and actively reject the idea of a commercial buyer. "The Forestry Commission manages this very well," says Mr Emberson, hacking at a larch sapling. Isn't the Forestry Commission an impersonal state bureaucracy, Bagehot ventures? "The Forestry Commission is not impersonal, it's Colin," says a volunteer, pointing out a young ranger down the slope. Above all, they dislike any idea of a commercial owner. It would be "all about money", says one. If the woods were run for a profit, "I don't think we'd be so keen to volunteer," adds another. Bank bail-outs are mentioned, with a grimace. Mr Knowles likes the Big Society philosophy, but worries it will be exploited by "the people with money".

Such views should alarm the government. Their vision for a flourishing society blends localism with the charity sector and business. Alas, just now Britons seem reluctant to accept that the profit motive can co-exist with altruism. That is the real lesson of the row over forests: if the coalition is serious about building a less statist Britain, it cannot dodge that crisis of trust forever.

Economist.com/blogs/bagehot

Index | International

Piracy

No stopping them

Feb 3rd 2011 | from PRINT EDITION

For all the efforts to combat it, Somali piracy is posing an ever greater threat to the world's shipping

THE first successful pirate attack of 2011 could scarcely have come more promptly. In the early afternoon of January 1st, monitors at the Maritime Security Centre-Horn of Africa, based in Northwood near London, picked up distress signals from the MV *Blida*.

Somali pirates had hijacked the Greek-operated, Algerian-flagged 20,586-tonne bulk carrier, its crew of 27 (mainly Algerian and Ukrainian) and its cargo of clinker. The ship was some 150 nautical miles south-east of the Omani port of Salalah and heading for Dar es Salaam in Tanzania. Four days later the *Blida*'s Ukrainian captain sent word that the ship was berthed off the Somali coast near the pirate lair of Garacad. The crew, he said, was safe and unharmed but the pirates had yet to start haggling with the owners over the ransom.

The Northwood centre was established in late 2008 as part of Operation Atalanta, a European Union (EU) naval initiative against Somali piracy. It works with the Royal Navy's UK Maritime Trade Operations office in Dubai as a reporting hub for pirate activity and as a communications hub for the multinational naval forces in the area. The seizure of the *Blida* was the fourth attack on New Year's Day; the other three were unsuccessful, thanks to evasive action and other protective measures.

Since then attacks have been running at the rate of more than one a day. According to the International Maritime Bureau, which posts live data on raids, Somali pirates hold 33 vessels and 758 hostages. In January alone the bureau recorded 35 attacks. The raiders took seven ships and 148 new hostages. The United Nations estimates the annual cost of piracy in the

Indian Ocean at between $5 billion and $7 billion. Later this month, as the monsoon ends and the seas calm, attacks will multiply and the numbers of ships and hostages held will rise (see chart).

Only a handful of attacks make headlines. The British media got into a state about a failed bid in mid-January to hijack *The Spirit of Adventure*, a cruise ship with 350 British pensioners aboard. A particularly violent rescue carried out by South Korean commandos a few days later attracted coverage, too: they killed eight pirates who had hijacked the *Samho Jewelry*. Anti-piracy patrols in the Gulf of Aden and the southern Indian Ocean now comprise up to 30 naval vessels. Even so, 2011 is set to be the worst year since Somali piracy revived following the collapse of the short-lived government of the Union of Islamic Courts three years ago.

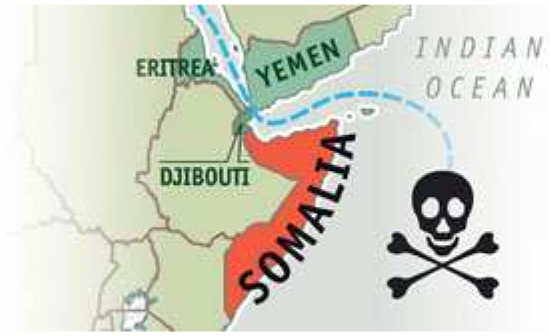
Somali piracy takes the form of hijacking and extortion, rather than conventional robbery at sea. This predatory pattern evolved from "defensive" piracy that began early in the last decade as a response by local fishermen, mainly of the Hawiye clan, to unlicensed foreign trawlers and the dumping of toxic waste. These outsiders exploited the absence of a functioning Somali state capable of protecting its coastal waters. The Hawiye briefly ceased their activities in 2006 when the anti-piracy Union of Islamic Courts occupied their Haradheere stronghold in central Somalia, but the Darod clan, with bases around Bosasso and Caluula on the Gulf of Aden in the semi-autonomous region of Puntland, energetically took up the slack.

Initially, almost all the attacks were in the calm, target-rich waters of the Gulf of Aden-a passage for 20% of the world's commercial shipping. When anti-piracy naval flotillas began arriving in force a couple of years ago, the pirates quickly worked out ways to roam farther by using "mother ships", often powerful deep-sea fishing vessels seized earlier, as floating bases for their fast skiffs (see map). With no government willing or able to stop them, the pirates found they could operate with impunity, refining a simple but devastatingly effective business model.

Working capital used to come from Somali criminal networks in Dubai, Nairobi and Lebanon. But increasingly the pirates are able to finance missions from their own earnings, which may have reached $238m last year. The business is disciplined. The pirates usually aim to take vessels without having to fire more than warning shots or harm the crew after boarding. The goal is to extract the highest possible cash ransom and return the ship, its cargo and its crew in decent condition. The pirates tend to keep hostage crews on board their own ships and feed them-sometimes by bringing live goats for slaughtering on board.

On stranger transfers

What happens next depends on the ransom negotiations. According to Stephen Askins of Ince & Co, an international law firm, the average hijacking lasts for 60-80 days, but that is increasing. The record belongs to the *Win Far 161*, a Taiwanese fishing vessel that was held for ten months and used as a mother ship with the original crew held captive on board. Three of them died of malnutrition and disease before their release in February last year. Although most of the 1,600 or so seamen captured since 2008 have safely returned from their ordeal, about 30 are thought to have perished from neglect or violence.



Watch our

Ransoms are paid in cash, partly because Somalia has no functioning banking system, and partly to hamper American anti-money-laundering investigators. Once the professional negotiators who work for both sides have agreed on a sum, the money is usually dropped from a light aircraft. Increasingly, however, the pirates accept money using electronic funds transfer. Colonel Richard Spencer, the British chief of the EU's naval force, says the size of ransoms is rising inexorably.

Mr Askins notes that the average ransom rose from around $1.5m at the beginning of 2009 to $3.5m at the end. In early 2010 *Maran Centaurus*, a Greek-owned tanker, was reported to have fetched between $5.5m and $7m after being held for 50 days. In November last year a South Korean oil tanker, the *Samho Dream*, captured in April, set a new record when it was released after a payment of $9.5m. The pirates who hijacked her at first demanded $20m, an indication both of their growing confidence and a form of score-keeping. New records this year seem certain.

The efforts of governments and industry to curb piracy have had mixed results. Three main naval task forces now operate in the area: Operation Atalanta, the EU contingent, which was originally created mainly to protect the UN's World Food Programme shipments to Somalia, but has expanded to take on a general anti-piracy role; Operation Ocean Shield, a NATO standing maritime group with a similar remit to the EU force and with overlapping national contributions; and CTF-151, a wider international effort based on a 25-nation coalition under American command and headquartered in Bahrain. China, Japan, India, Iran, Russia and Saudi Arabia, among others, deploy their own naval forces under national command.

Since late 2009 all the ships in counter-piracy operations have had access to Mercury, a secure internet-based communication system set up by the British. This helps co-ordination. Ships from one navy or task force can request information or help from another, whatever the state of relations between their two countries. Even Iranian warships can discreetly work together with their American counterparts.

The combined naval forces have had some successes. World Food Programme supplies, on which nearly 2m Somalis depend, are getting through. There are now proportionately fewer attacks in the strategically important Gulf of Aden, thanks in part to escorted convoys and to a transit corridor set up in 2009. By registering his passage, the captain of a commercial vessel can trade information about pirate activity with naval patrols. Task-force commanders gain a clearer picture of vulnerable ships' locations. Naval intervention disrupts around a fifth of the attacks. The UN estimates that about 700 suspected and convicted pirates are held in 12 countries.

Yet satisfaction at such successes is mixed with frustration and an overwhelming feeling that naval deterrence is doing little more than prevent piracy from getting out of control. Colonel Spencer says: "The military resource is finite and only treats the symptoms. We're only holding the line."

The biggest difficulty is that by squeezing the pirates hard in the Gulf of Aden the naval task forces have created a "balloon effect", spreading attacks out to the middle of the Indian Ocean. In March last year an attack took place 975 nautical miles south of Haradheere, close to Madagascar; and in April the pirates struck 1,300 nautical miles east of Haradheere, nearer the coast of India than Somalia.

The result is that the area of pirate operation is now about the size of western Europe. Policing it, says Colonel Spencer, would require five times as many warships as the task forces can muster, each one with its own helicopter. Even then, a helicopter would typically need around an hour to get from a warship to the scene of an imminent attack. In reality, patrolling frigates get less than ten minutes' notice of an attack.

Dead man's mother ship

By using bigger and better equipped mother ships, pirates can often stay at sea for more than a month at a time, launching a series of raids. They also use more sophisticated equipment, such a GPS tracking devices and radar, to stalk their prey.

A further problem for the task forces is that the pirates are all too aware of the restrictive rules of engagement that bind most of their foes. If a vessel attached to one of the three main flotillas believes that pirates have hostages under their control, it is under orders not to launch an attack. That is why the recent South Korean rescue was exceptional and controversial. Once pirates have taken a ship, they are usually in a strong position. By keeping the original crews captive aboard the mother ships, the pirates largely safeguard themselves from disruption even when their criminal intent is clear.

If they are caught in the middle of an attack, the pirates have no hesitation throwing their weapons-typically AK47 machine guns and rocket-propelled-grenade launchers-and their scaling ladders overboard to destroy evidence of their intentions. Even when a ship succeeds in capturing pirates, both sides know that the legal complexity of bringing prosecutions means the prisoners will probably be quickly released. Naval forces have let between 500 and 700 pirates go over the last three years, mostly ensuring they have enough fuel and other supplies to get home and, on more than one occasion, helping with engine repairs. Some pirates have been arrested several times.

The problems in bringing pirates to justice are numerous. They start with a lack of political will to prosecute them. Rich countries fear that, apart from the trouble and expense of putting pirates on trial, convictions will not deter them. Some may even see a short spell in a western jail followed by an application for political asylum as enticing. Much of the focus has therefore been on persuading regional states such as Kenya, Tanzania and the Seychelles to prosecute and imprison pirates.

Kenya has borne the brunt of the pressure. Eighteen Somalis are serving long prison sentences there and more than 100 are awaiting trial. In exchange for Kenyan help, the EU has invested about $3m in the country's judicial system through the UN Office on Drugs and Crime, some of which went on building a special court for piracy trials.

However, on September 30th the Kenyan government said that it was ending the agreement with the EU, accusing the outside world of failing to keep its side of the bargain. The internal security minister, George Saitoti, had complained several times that, without more support, Kenya's justice system could not cope with the influx of pirate captives. The decision was popular with ordinary Kenyans, who felt uncomfortable with the role their country was being asked to play.

The EU, which has put much stress on judicial "capacity-building" in the region, points out that the economic interests of Kenya and neighbouring countries, such as Tanzania, depend on dealing with the threat of piracy, which is having an increasingly chilling effect on their ports. But unless outsiders stump up a lot more money, countries in the region will remain reluctant partners.

There are no easy answers. Outlawing the payment of ransoms seems unfeasible unless there is clear evidence (none exists so far) that some of the money is finding its way into terrorist hands. Making ransoms illegal would only add to the stress and uncertainty that hostage crews face. Although everyone agrees that the answer to endemic piracy ultimately lies on shore, not even the Americans are in favour of taking out the pirate bases. Apart from the pirates' ability to regenerate quickly, making any such fix temporary, Western military forces have no desire to become embroiled in Somalia. One concern is that a foreign presence there would boost support for the Islamist Shabab militia, which has links with al-Qaeda.

The most encouraging development has been the spread of "best management practices" for deterring piracy. The naval forces and the shipping industry have worked together to advise ship operators and captains crossing the Gulf of Aden and the Arabian Sea on how they should prepare their vessels and crews for the pirate threat. It seems to be working. In 2008 the target ship managed to beat off a pirate assault half the time. Now, three-quarters of the assaults end in failure.

The latest set of guidelines recommend hindering the pirates by maintaining a high cruising speed (supposedly, no pirates have succeeded in boarding and taking a ship doing more that 18 knots); practising evasive manoeuvres; erecting physical barriers, such as concertina razor wire along a ship's side; and using hoses and foam cannons to deluge pirate skiffs with water when they are close.

The curse of the weapon

Despite some calls to arms, the shipping industry is against stationing armed security guards on board, because of the risk that crews will be caught up in a lethal firefight. But there is growing enthusiasm for ships to have a "citadel", a fortified area to which the crew can retreat during an attack and from which the sailors can control the ship's engines and communicate with the task forces and the shore. A citadel needs to be strong enough to withstand the pirates' determined assaults and to have emergency rations and air conditioning, so that the crew can stay safe for at least 24 hours. The idea is that citadels will give naval forces enough time to arrive and to protect the crew if fighting breaks out. In the past few months several attacks have been foiled this way. The worry is that before long the pirates will bring high explosives with them.

Ultimately, the only way to turn the tide against piracy would be to offer pirates and their families a better way of life. Sadly, there is little prospect of a functioning Somali state-such a thing has not existed for 20 years. Despite signs that an African Union "peacemaking" force is making progress against the Shabab in Mogadishu, the capital, the jihadists still control most of the south. The key, therefore, lies in breakaway Puntland in the north, where nearly all the piracy originates. It is no coincidence that piracy is almost unknown in neighbouring Somaliland, which, though still diplomatically unrecognised, makes a relatively good fist of government.

Weaning Puntland off piracy will be tricky. Investment in the region as an oil and gas producer and aid to rebuild its decayed ports might help in theory. However, Martin Murphy, a scholar of piracy, argues that its "corrupting tentacles" may have wrapped themselves too tightly around Puntland's political leadership for such an approach to work. Instead, he suggests, support should be directed towards local leaders and clan elders. The money saved, he says, from naval vessels ceasing to plough the seas would be enough to build a civil infrastructure in Puntland.

Unfortunately, too many people like things as they are. Pirates gain wealth, excitement and glamour. Marine insurers, which last month extended the sea area deemed to be at threat from Somali pirates, are making good money from the business that piracy generates. At least for the time being, shipowners are willing to take the calculated risk of sailing in pirate-infested waters; so long as everyone bears his part of the extra $600m a year in premiums, they can pass the bill on to their customers. Patrolling foreign navies can demonstrate their usefulness to their sometimes sceptical political masters, while countries such as China and Russia are strengthening their operational experience.

Heading for the end of the world

On January 25th Jack Lang, the UN's special adviser on piracy, presented a report to the Security Council, outlining new security and legal weapons against piracy and calling for economic development in Puntland. Sadly, the extortion and violence will probably have to worsen before the outside world makes a coherent attempt to deal with the pirates. That is no comfort to the crews facing the constant threat of attack or to the mounting number of hostages, living in squalor, fearing for their health and their lives.

Index | Business

BP in Russia

Dancing with bears

Feb 3rd 2011 | *MOSCOW* | from PRINT EDITION

BP's Russian venture is already proving trickier than expected

TONY HAYWARD, BP's ex-boss, once moaned that he wanted his life back. That was after an oil spill in the Gulf of Mexico last year, which the British oil giant expects will end up costing it more than $40 billion. BP, too, is struggling to get its old life back, even after apologising, helping with the clean-up, dumping Mr Hayward and taking a huge write-off.

On February 1st it announced its final, awful, results for 2010: a loss of $4.9 billion. That was BP's first loss since 1992, but the company fondly hopes that it will now have an opportunity to move on. It would like to direct the world's attention to its efforts to improve safety, its plan to start paying dividends once again this year and its ideas for the future.

Alas, some of those plans are already hitting obstacles. Two weeks ago BP announced a new partnership with Rosneft, Russia's state-controlled oil giant, that will see the companies exploring a large and promising part of Russia's Arctic region for oil. The deal gives BP access to Russian reserves which are normally kept out of foreign reach. In return Rosneft will get 5% of BP's shares, making it one of the largest shareholders. It will also share BP's expertise and technology. The deal sparked a furious row between BP and its partners in TNK-BP, a Russian oil company run as a joint venture between BP and a few Russian oligarchs.

On the same day that BP's results were announced, a judge in London granted a request by Alfa-Access-Renova (AAR), the vehicle through which Russian partners hold their stake in TNK-BP, that the Rosneft deal be put on ice until at least February 25th. AAR argues that TNK-BP is meant to enjoy an exclusive right to develop any further deals in Russia to which BP might be a party. It complains that BP has stiffed it. "BP is acting more Russian than a Russian firm," says one of AAR's largest shareholders. AAR has also moved to block a dividend from TNK-BP that would have yielded BP $900m.

At a press conference Bob Dudley, BP's new boss, said that it had been impossible for BP to talk to AAR in advance of the Rosneft deal because of the market sensitivity of the share swap involved, and that BP and its partners would be headed for arbitration on the matter regardless of the court verdict. He says he expects to come to a settlement quite easily, and that one of BP's strengths is its long history of involvement with Russia, which contributes about 10% of BP's profits. At least some of this history, however, consists of misjudging Russian politics and quarrelling with its partners.

When BP formed its joint venture with TNK in 2003, oligarchs seemed the partners of choice for getting things done in Russia. But in 2008, having judged that the ultimate power in Russia lay with state energy companies, BP went behind the backs of its private Russian partners to negotiate a deal with Gazprom, the state-controlled gas behemoth.

This did not go down well. BP underestimated the power of Mikhail Fridman, one of its oligarch partners. A self-made entrepreneur, Mr Fridman got rich in the 1990s and then consolidated his business under Vladimir Putin while remaining his own man-a trick few have managed. BP's attempt to outplay Russian oligarchs at their own game of power politics failed.

Mr Fridman pulled strings, Gazprom disengaged and Mr Dudley, then the chief executive of TNK-BP, had to flee Russia. Purported diplomatic cables published by WikiLeaks suggest that Igor Sechin, the deputy prime minister and chairman of Rosneft, BP's new partner, was co-operating with Alfa (Mr Fridman's firm) and played a part in Mr Dudley's ouster.

Of oil and oligarchs

Now BP is in bed with Rosneft and has shaken hands with Mr Sechin, who is widely seen as the architect of the attack on Yukos, an oil firm that was dismantled with scant regard to the law in 2004. Yukos's main shareholder, Mikhail Khodorkovsky, is now in jail. He was ostentatiously given a second prison sentence just as the BP-Rosneft deal was announced.

BP may become embroiled in the legal battle over Yukos's assets, which were swallowed by Rosneft. But first the British firm faces a fight with Mr Fridman. If BP assumed that its partnership with Rosneft meant that Mr Fridman would not dare to protest, and that Mr Sechin would always take BP's side, it may have miscalculated. The legal challenge from AAR is said to come with the full knowledge and approval of the Kremlin. "BP has a very simplistic view of the power structure in Russia," says Mr Fridman.

AAR does not have any interest in destroying Rosneft's $16 billion deal with BP. But equally Mr Sechin is unlikely to stand in Mr Fridman's way when he demands that BP compensate AAR handsomely. Rather than wanting to chase Mr Dudley away again, the Kremlin (and AAR) are keen to draw BP deeper into Russian business and gain more influence over it. Rosneft wants to transform itself into a respectable global oil firm, using its relationship with BP as a stepping-stone.

BP must surely have its qualms about this; but all the parties' interests are at least aligned on one thing. They want those Arctic oilfields to make money. As Mr Dudley affirmed this week, BP's long-term strategy is to keep searching for oil, which is more lucrative than gas. And with more and more of the world's oil being produced by state-owned oil firms, private ones need to go to greater extremes, both technologically and politically, to stay in the game.

Index | Business

Chinese family businesses

Dusk for the patriarchs

Feb 3rd 2011 | *HONG KONG* | from PRINT EDITION

As ageing tycoons die, their heirs are feuding and their empires are at risk

COMPANIES can survive for hundreds of years. Their founders cannot. Hence the problem that eventually faces all family-owned firms: how to hand over from one generation to the next. In Stanley Ho's case, the transition is proving stormy.

Mr Ho is the gambling king of Macau: the founder of an empire that includes casinos, ferries, an airline, hotels and commercial property. He is also 89 years old, in poor health and less lucid than he once was. His four families are fighting like harpies over his assets, which are held within an array of complex structures.

It is messy: Mr Ho (pictured, with his third wife and their daughter) had four concurrent "wives" in a territory that does not recognise polygamy. Three are still alive, plus at least 16 children. Mr Ho apparently had a stroke in 2009, prompting his relatives to start struggling for control.

Their feud has become a YouTube sensation. Every few days, a wheelchair-bound Mr Ho issues a statement that contradicts his previous one: either accusing his relatives of robbery or exonerating them. Throngs of Hong Kongers have joined the journalists outside the family's many opulent residences, straining for the latest whispers. Two photographers have had their feet run over by limousines.

The Ho saga has prompted fresh scrutiny of other firms that will soon face succession tussles. A major investor in two of Mr Ho's Macau companies (one controlling casinos, the other ferries) is Cheng Yu-tung, 85, who runs his own swelling conglomerate, New World Development, with unresolved succession issues.

At Sun Hung Kai, Hong Kong's largest property owner, the succession seemed settled in 1990 with the death of the founder and management passing to his three sons. But turmoil erupted in 2008 when the founder's then 79-year-old widow, Kwong Siu-hing, emerged as the true power, pushing out her eldest son, Walter, who had been chief executive. On Sun Hung Kai's board sits Lee Shau-kee, 82, who runs another property company, Henderson Land, with its own succession issues.

Any talk in Hong Kong about succession soon touches upon Li Ka-shing, 82, the territory's richest resident, whose empire encompasses utilities and property. Much of his wealth has been pledged to charity, but no one knows who will run his firms when Mr Li dies. When he was abruptly hospitalised in 2006, shares in his listed companies immediately sank.

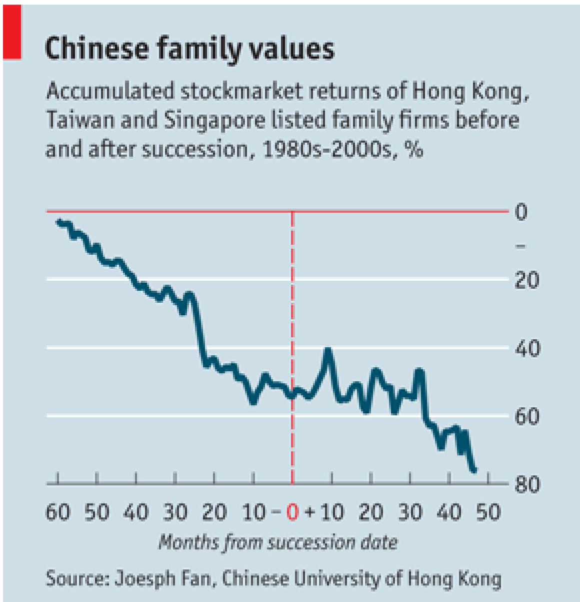
King Lear had it easy

Hong Kong's ageing tycoons with uncertain succession plans

Name	Age	Business	2011 net worth*, $bn	Comments
Li Ka-shing	82	Property	24.0	Ambitious sons lack daddy's skill and connections
Kwong Siu-hing	82	Property	20.0	Eldest son purged after family spat
Robert Kuok	87	Hotels	9.0†	Son aims to succeed. Daughter runs paper
Cheng Yu-tung	85	Jewellery & property	9.0	Son is managing director, grandson waiting
Stanley Ho	**89**	**Casinos & hotels**	**3.1**	**Fading patriarch, family suitable for Jerry Springer show**
Lui Che-woo	81	Casinos & hotels	3.0	One son deputy chairman, another runs US business
David Li	71	Banking	1.9	After four generations, family control slipping
Gordon Wu	75	Property	0.9†	Eldest son is deputy CEO, but very deputy

Sources: Forbes; *The Economist* *May include assets of other family members †2010

Many Hong Kong tycoons are getting old (see table). Typically, their fortunes date back to the early post-war years, when Hong Kong was a desolate rock, Macau was in decline and Singapore was a swamp. They built empires while keeping tight personal control, often using bewildering interlinked corporate structures.



Within a few years, dozens of publicly listed (but family-controlled) Asian companies will change hands. If history is any guide, the process will hurt, says Joseph Fan, a professor at the Chinese University of Hong Kong. A study he jointly conducted of 250 companies in Hong Kong, Taiwan and Singapore controlled by Chinese families found that successions tended to coincide with tremendous destruction of value (see chart).

There are exceptions. Sir Run Run Shaw, a 103-year-old media mogul, appears to be retiring in peace. On January 26th he announced that he would sell his controlling stake in TVB, Hong Kong's largest television network, for more than $1 billion. It was the last public link to an empire that once included the largest private film studio in the world. Mr Shaw retired from active management on his 100th birthday, in favour of a much younger manager, his then 77-year-old second wife, Mona Fong.

Many patriarchs built their fortunes with risky bets: movies, the first casino, manufacturing. But many have shifted into merely collecting rents from property and related businesses (ports, hotels, retail) or from government concessions (electricity, telecommunications, gas, casino licences).

The simplicity of the underlying businesses may account for the ferocity of the family battles-it is not hard to make money if you own a casino near mainland China these days. However, in areas that are genuinely competitive, such as banking, Hong Kong's family firms have been largely elbowed aside by multinationals.

Patriarchs add value in two ways that do not appear on balance-sheets, says Mr Fan. Their reputation ensures that banks will lend money to their companies. And their relationships with government are often lucrative. Alas, these strengths are hard to bequeath to one's children. Which is why some Asian empires will struggle to outlive their founders.

Index | Business

American business

Never had it so good

Feb 3rd 2011 | *NEW YORK* | from PRINT EDITION

How much longer can corporate America keep on delivering bumper increases in profits?

THE first time the Dow Jones Industrial Average hit 12,000, in October 2006, presenters on CNBC, a business channel, almost caught fire with excitement. When it reached that milestone again on February 1st the reaction was more muted, though the recovery from a low of 6,547 less than two years ago is remarkable, and soaring share prices reflect a corporate America that is leaner and stronger than it was back in 2006.

The current profit-reporting season is shaping up to be one of the best ever. For non-financial firms in the S&P 500, earnings per share are now higher than they have been for at least a decade. With over half of the companies in the S&P 500 having reported, profits in 2010 were up by 17% compared with 2009. (The year-on-year increase is far greater if financial firms are included, since they plunged in 2009 and then rebounded spectacularly.)

The Dow was helped on its way by strong quarterly profits from Alcoa, an aluminium producer, which generated more than $1 billion of cash from its operations in the fourth quarter, and Exxon Mobil, which reported a 53% increase in fourth-quarter profits thanks to high oil and gas prices. Its full-year profit was $30.5 billion, up from $19.4 billion in 2009.

How much longer will the party last for corporate America? The investors who took the Dow past 12,000 are less giddy than their predecessors were in 2006. The average price-earnings ratio then was 22.7-indicating that investors expected rapid future growth. Now it is a more sober 14.7.

Some fear that the productivity improvements that have driven profit growth since the financial crisis will soon tail off. "Around 90% of the productivity growth in corporate America has come from cost-cutting, and that is now reaching its limit," says Carsten Stendevad of Citigroup's corporate-advisory arm. Scared for their jobs during the crisis, employees toiled more for no more money; but they cannot be whipped much harder. To increase profits still further, firms need to increase sales far more than most analysts think they will, reckons Mr Stendevad.

Squeezing the lemon

Others disagree. "There is a lot more juice to be squeezed out of the lemon," insists Hal Sirkin of BCG, a consultancy. Firms brag about having introduced "lean systems", but most have done only "10-25% of what they could do", says Mr Sirkin.

Many firms are doing clever things: sending their product designers to visit factories to figure out how to make a new product as efficiently as possible, working out which customers are the most profitable and focusing on them, and so on. Even the best firms could do more of this, and laggards could copy them, says Mr Sirkin.

The stockmarket continues to reward cost-cutting, even if it pares muscle as well as fat. When Pfizer, a research-based drug firm, announced increased profits and a hefty cut in its research-and-development budget on February 1st, its shares surged.

Sales may at last be picking up. Analysts at Bank of America Merrill Lynch calculate that in the first week of this earnings season the number of American companies reporting better-than-expected sales outstripped the number reporting better-

than-expected profits. In January American manufacturers saw their revenues grow faster than those of any other sector. If they maintain January's pace, they could grow by 5% this year.

In America, rapid sales growth is still only a rumour. In emerging markets, it is a fact. So American firms will continue to expand overseas. "Whereas 2010 was a stabilisation year [for corporate America], 2011 will be a year of investing in laying the foundation for growth," says Mark Spelman, global head of strategy at Accenture, a consultancy.

That is likely to mean tapping into some of the mountains of cash that American firms have accumulated over the past few years. The cash piles were at first supposed to provide a safety net in case of another financial disaster. Recently, they have continued to grow because firms could not think of good ideas for putting the capital to work. If that changes and businesses start to spend again, it would be excellent news for the big tech firms that supply them with office gizmos.

Thanks to recent productivity improvements, corporate America is well placed to turn higher sales directly into higher profits, says Mr Standevad. If not investing in new organic growth, many firms will look to expand their sales through mergers and acquisitions, both at home and in emerging markets.

If, for some reason, they should fail to put their cash mountains to work, investors will demand the cash back through dividends and share buybacks. Indeed, many are already demanding, and receiving, just that. In short, as American firms expand at home and abroad, profits are set to rise and cash holdings to fall. Whether this will help the more than 9% of the American workforce who are unemployed remains to be seen.

Index | Business

Rolls-Royce

Per ardua

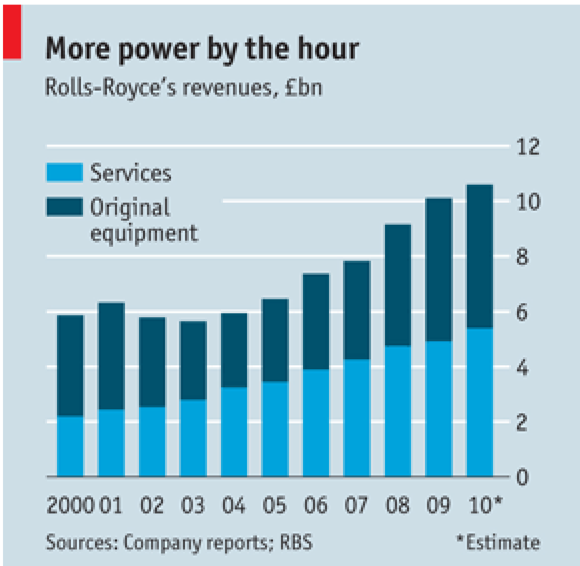
Feb 3rd 2011 | from PRINT EDITION

The jet-engine maker is soaring above its troubles

WHEN a Rolls-Royce engine on the world's biggest airliner exploded in midair last November, disaster was narrowly averted. But pictures of the wrecked engine and the battered Qantas Airbus A380 flew round the world. Qantas and Airbus fretted publicly about the damage to their reputations. Rolls-Royce, by contrast, kept a stiff upper lip. Sir John Rose, its boss, made clear that he wanted to fix the problem, not debate it.

Qantas grounded its fleet of six super-jumbos. Other airlines pulled theirs in for rapid inspections. The fault-a leaking oil pipe-was quickly diagnosed and remedies put in place. The damage was limited: within weeks Rolls-Royce had signed orders with a couple of Chinese carriers worth $3 billion and a further $5 billion deal for engines on the A380s that British Airways is buying.

After years of spending heavily on giant new engine models, Rolls-Royce is roaring ahead. It plans to double its sales in the next ten years. Its order backlog (mostly civil jets) is now more than pound60 billion ($97 billion). On February 10th, when the British firm will report its 2010 financial results, the cost of the incident to the world's second-largest maker of jet engines should become clearer. (Qantas may sue if an out-of-court settlement cannot be reached.)



Rolls-Royce has said only that underlying pre-tax profit growth should be slightly lower than the 4-5% it had signalled last summer. Its shares have been soaring for the past two years as the company's long-term outlook began to brighten. They dropped 10% after the Qantas incident, but soon recovered. Overall they outperformed the market in 2010.

Rolls-Royce is sitting out the upgrading of the A320 but only because it would prefer to wait for an all-new version of the plane. Instead it is concentrating on taking advantage of the boom in big widebody planes such as the Boeing 787 Dreamliner and the Airbus A380 and A350XWB, for which Rolls will be the sole supplier of engines. It already has a 65% share of the engine orders for these three planes.

Rapid expansion of airlines in Asia is fuelling demand for these long-haul giants. In America consolidation and a return to profit will soon trigger a renewal of the big-jet fleet there: with an average age of 15 years, American big jets are almost three times older than those of carriers such as Emirates.

But Rolls-Royce has also been gradually changing the way it does business. Profits used to come from selling engines and replacement parts. Now they come from providing long-term repair and maintenance-or "power by the hour". Rolls is steadily signing up all its customers to this sort of service. Margins are typically higher than on hardware. Customers do not mind because they are buying peace of mind-it is Rolls's job to make sure the engine keeps running.

Some investors remain wary. Aircraft engines are usually priced in dollars, so any decline in that currency can translate into lower sterling profits for Rolls-Royce. No wonder the company has a hefty derivatives portfolio. The growing importance of service income also makes the company more sensitive to an economic downturn, since airlines immediately cut flying hours. Repeated delays to the introduction of new Boeing and Airbus models do not help, either.

Yet Rolls-Royce has comforts, too. Its gas-turbine engines can work on civil airliners or fighter jets. They can also be used to power warships, merchant ships and oil tankers, or to generate electricity in small gas-fired power stations. The firm's marine division has grown so fast that it has now overtaken the defence business. Its nuclear propulsion units drive the British Royal Navy's submarine fleet. It aims to build on its nuclear expertise by joining future consortia to replace ageing nuclear-power plants. Let the good times roll.

Index | Business

Steel in Japan

Bonds of steel

Feb 3rd 2011 | *TOKYO* | from PRINT EDITION

A welcome mega-merger

THE proposed merger of Nippon Steel, Japan's largest steelmaker, with Sumitomo Metals, a domestic rival, was announced on February 3rd. The new steel firm would be the world's second- largest, after ArcelorMittal of Luxembourg. It is a welcome sign that Japan Inc is adapting.

Steel provided the backbone of Japan's post-war industrial rise. Its quality-Japanese carmakers swear by it-still makes it a symbol of the country's manufacturing prowess. A move to tie up Japan's number one and number three steelmakers is a sign that the nation's bosses are at last responding to the urgent need for corporate restructuring. It is the country's first steel-industry merger since 2002, and comes as rising raw-material prices and steely competition from other East Asian producers have exposed alarming over-capacity.

The merger, which both companies hope to sign in April 2012, is, to a degree, a family affair. Nippon Steel and Sumitomo Metals have roots in rival Osaka industrial groups, but now co-operate and have small cross-shareholdings, so they know each other well.

Together they have a capacity of 47.8m tonnes. That is well short of ArcelorMittal, which produced 73.2m tonnes in 2009. But perhaps putting together two producers of high-quality steel will be better than focusing on quantity alone. And if their example is followed elsewhere in Japan's sclerotic corporate landscape, so much the better for the economy.

Index | Business

Rupert Murdoch's iPad Daily

Who needs paper?

Feb 3rd 2011 | from PRINT EDITION

A new digital paper tests a new model for news

EIGHT years ago Apple launched iTunes, a digital store selling music singles for 99 cents apiece. For record companies ravaged by piracy, it seemed like a good deal. Only later did many come to regret allowing another company to set retail prices and to get between them and their customers. On February 2nd Apple and Rupert Murdoch's News Corporation launched the *Daily*, an iPad newspaper that will cost 99 cents a week. It will not dominate the digital news market the way iTunes came to rule the digital music market. But it sets a disruptive precedent or two.

The *Daily* is a mixture of the newfangled and the old-fashioned. It has whizzy graphics, including video and "360-degree" pictures. Sport fans can receive the twitterings of their favourite players. Unlike most websites, though, the *Daily* is available only in America. It features outmoded things such as editorials and paid reporters. Although it can be updated to take in breaking news, it is primarily a daily, not an hourly.

In one sense it is a trailblazer. The *Daily* is the first product to offer recurring subscriptions through Apple's store. So far most publishers have been obliged to sell single issues of newspapers and magazines on the iPad. As a result, sales are erratic: *Wired*, a technology magazine with a beautiful app, sold 100,000 digital copies last June but just 24,400 in December. The *Daily*'s sales model is better than that. But not much better.

There is the price, for one thing. Ken Doctor, the author of "Newsonomics", reckons many people will be willing to pay 99 cents a week for news. That "what-the-hell price" could become a benchmark. The *Daily* is thinly staffed and will cost less than half a million dollars a week to put out. Many established newspapers and magazines, including some owned by News Corporation, want to charge considerably more than 99 cents a week. They believe the experience of reading a newspaper or magazine on the iPad is a good substitute for the original thing, and fear undercutting their paper products.

They have a bigger worry. In the absence of a means to sell subscriptions through the app store, publications from *People* magazine to *The Economist* to News Corporation's *Wall Street Journal* have deployed their own systems for controlling access. Some sell single issues while allowing free access to people who already pay for the paper or web product ("existing print subscribers click here"). In effect, they are using the iPad as a delivery system for content paid for outside

Apple's ecosystem. That means Apple does not take a 30% cut of sales. More important, particularly for ad-dependent American publications, it means they can keep tabs on subscribers.

This opportunity may be closing. In the past month Apple has advised at least two European publishers to stop bypassing its payment system. It is unclear whether, having set up a subscription system for the *Daily*, Apple will try to force publishers to use it. As Mr Murdoch acknowledged this week, Apple rules the tablet market. Publishers have come to wish it were not so.

French competitiveness

France's lost decade

Feb 3rd 2011 | from PRINT EDITION

A once-great industrial power looks for inspiration across the Rhine

Another hard day at work

AS GERMANY powers ahead, France is feeling blue. Its share of European merchandise exports has fallen from 15.7% to 13.1% in a decade. Last month a study comparing French exporters with German ones landed on the desk of France's economy minister. It makes grim reading.

In 2000 French exports were 55% of Germany's; now they are barely 40%. France is more competitive (a measure of price, quality and demand) in only three industries: aerospace, drinks and information technology. German cars, trucks and a host of other manufactured goods are streets ahead (see article).

Why? Until around 2003 France was holding its own, making up in pricing what it lacked in quality. However, there was a "rupture" in competitiveness from around 2000, says the report. Germany was battered by the dotcom bust; that made France complacent. It clung to its 35-hour working week and saw the minimum wage creep up by 17% between 2002 and

2005. The social costs of labour borne by French employers are among the highest in the euro zone: euro50.3 for every euro100 paid to a worker, compared with euro28 in Germany, according to Medef, a French employers' lobby.

France has more industrial companies than Germany, but many are little more than a man, a workshop and a dog. Fewer than a third of them spend money on research and development (R&D); nearly half of those in Germany do.

France lacks the German knack of meshing big companies with their suppliers. It has no equivalent of Germany's Fraunhofer and Max Planck research institutes, which collaborate closely with industry. Its companies have also made less use of cheap central European labour: the region supplies France with only 5.5% of its imports of base and intermediate goods, compared with 18% for Germany.

The report offers a five-point plan to put French industry back on track: enact tax reforms, collaborate more, put more emphasis on human capital, focus training and research better and drive down industrial costs. In short: copy Germany.

Failure to do so could be punished severely, the report's authors (a research outfit called COE-Rexecode) warn. They paint four scenarios. Within the euro zone France could specialise as an exporter of services, while Germany dominates industrial exports. Industry could leave France for more productive regions. Uncompetitive French firms could be kept afloat with subsidies. Or Germany could make France more competitive by raising its own wages. French firms would like this last option the best.

Some French people doubt they will achieve much by imitating Germany. France's industrial base is now so small that making it more competitive will have little effect, says Patrick Artus, chief economist at Natixis, a French bank. Euro-zone economies should specialise rather than become homogeneous, he reckons: "It makes no sense to have 17 Germanys."

Others suspect that the COE-Rexecode report is an attack by industrialists on the 35-hour week. The 35-hour limit can be got around by granting workers extra holidays or pay, but it still affects the attitude to work. "It's a culture of entitlement," says Dan Serfaty, founder of Viadeo, a social-network company, who moved half of his operation to California four months ago.

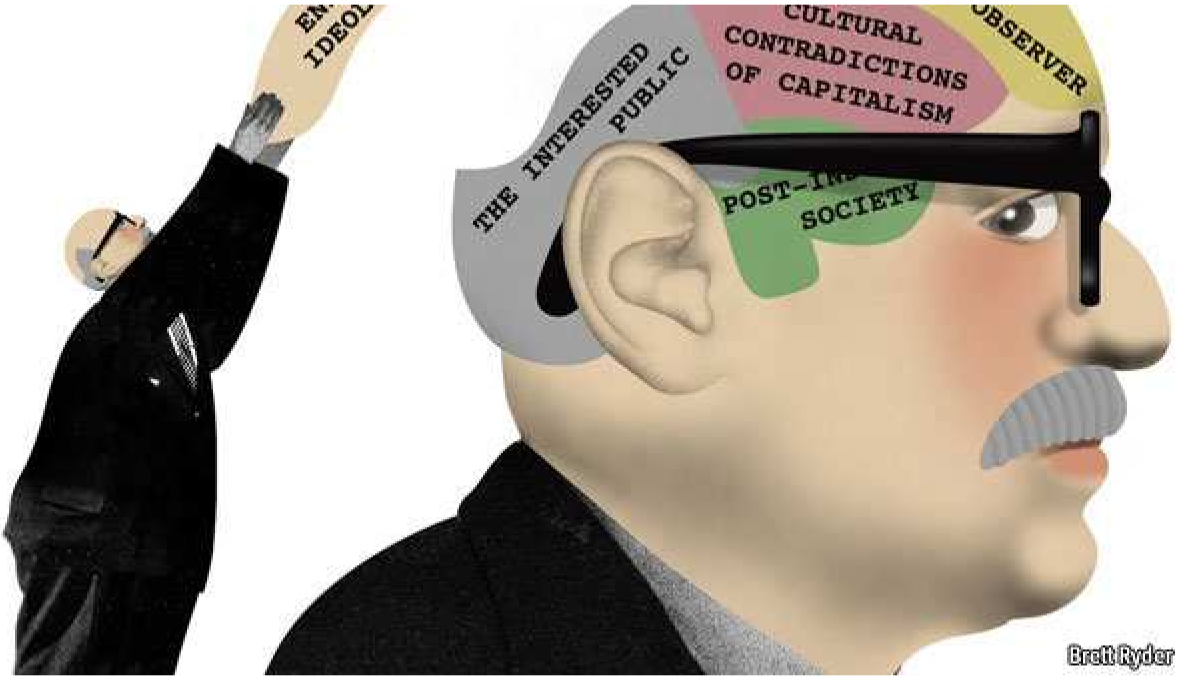
Index | Business

Schumpeter

Ahead of the curve

Feb 3rd 2011 | from PRINT EDITION

Daniel Bell, who died on January 25th, was one of the great sociologists of capitalism



ASKED what he specialised in, Daniel Bell replied: "generalisations". Mr Bell lived a varied life. He grew up in New York City, so poor that he sometimes had to scavenge for food. Yet he ended his days in bourgeois comfort in Cambridge, Massachusetts. He spent 20 years as a journalist, mostly as *Fortune*'s labour editor, before decamping to academia. His boss, Henry Luce, desperate to keep his star writer, asked him why he was leaving. He gave four reasons: June, July, August and September.

His taste for generalisations grew with the eating. He produced three of the great works of post-war sociology: "The End of Ideology" (1960), "The Coming of Post-Industrial Society" (1973) and "The Cultural Contradictions of Capitalism" (1978). On the *Times Literary Supplement*'s list of the 100 most influential books since the second world war, two were by Mr Bell.

Many of Mr Bell's insights remain as relevant today as when he first broached them. For example, the transition from industrial to consumer capitalism, which he chronicled in America decades ago, is now happening in China and India. Even when he was wrong, Mr Bell was wrong in thought-provoking ways. A few hours with his oeuvre is worth more than a week in Davos (and is less likely to cause skiing injuries).

"The End of Ideology" described the political landscape of the post-cold-war world 30 years before the cold war ended. Mr Bell argued that the great ideological struggles that had defined the first half of the 20th century were exhausted. The new politics, he said, would be about boring administration, not the clash of ideals. His timing could hardly have been worse: the 1960s was one of the most ideologically charged decades in American history. Nonetheless, Mr Bell was right that the ideology of communism was doomed. In China it has given way to market Leninism. In Russia it has been replaced by kleptocracy.

Mr Bell spent the next decade and a bit working on a huge book, "The Coming of Post-Industrial Society", a term he coined and which caught on. Many of the book's insights-about the shift from manufacturing to services, the rise of knowledge workers and the waning of the class struggle-have now become so familiar that it is easy to forget how fresh they were in 1973. However, Mr Bell failed to spot one of the revolutions that was whirling around him: the transition from the managerial capitalism that he witnessed at *Fortune* to a much more freewheeling entrepreneurial capitalism. Perhaps this was the price he paid for spurning Luce and moving to academia.

Many of his other insights still bite. He argued that the old-fashioned class struggle was being replaced by other, equally vexatious conflicts: for example, between the principles of equality and meritocracy in higher education. He also anticipated the current debate about happiness by pointing out that material progress cannot eliminate the frustrations inherent in the zero-sum competition for power, prestige and the attention of the sexiest person in the room. The more people are free to rise on their own merits, the more they will race on the treadmill for status.

Mr Bell's best book was "The Cultural Contradictions of Capitalism". In it he raised the possibility that the material abundance that capitalism produces might destroy the very virtues that had made capitalism possible in the first place. Capitalism, as Max Weber said, depends on the Puritan virtues of hard work, thrift and deferred gratification. But modern consumerism was stimulating the appetite for instant gratification and irrational self-expression, Mr Bell worried. The Protestant ethic was being destroyed by the shopping mall and the counter-culture.

This argument is not watertight. Despite Mr Bell's cultural contradictions and Karl Marx's economic contradictions, capitalism is still going strong. In "Bobos in Paradise" David Brooks, a *New York Times* columnist, argued that a cocktail of bourgeois virtues and bohemian values can prove economically invigorating. Some of the most successful companies in recent years have been founded by such un-Puritanical figures as Sir Richard Branson (Virgin), Steve Jobs (Apple) and Ben Cohen and Jerry Greenfield (Ben & Jerry's). High-tech companies such as Google have no difficulty in combining the profit motive with the ethos of a campus. But in one area Mr Bell was prescient: he worried that consumerism was encouraging people to borrow more money than they could reasonably hope to repay.

He was even more prescient about what might be called "the cultural contradictions of the welfare state". This was the subject of passionate debate in the pages of the *Public Interest*, a journal he co-founded in 1965 with another poor-boy-made-good, Irving Kristol. The welfare state cannot last unless someone creates the wealth to pay for it. But interest groups demand ever more from the state, and politicians jostle to promise more goodies. As the welfare state expands, it can eventually undermine people's willingness to take risks or look after themselves.

Different strokes for different folks

One of Mr Bell's most provocative insights ran throughout his work. This was the idea that, contrary to what economic determinists such as Marx said, different "realms" of society could operate according to different principles. (Always wary of the neoconservative label that Kristol embraced with such enthusiasm, Mr Bell described himself as a "socialist in economics, a liberal in politics and a conservative in culture".) Capitalism might co-exist just as happily with Chinese authoritarianism as with American democracy, he reckoned. In this, one hopes that the great polymath was wrong.

Economist.com/blogs/schumpeter

Index | Business

Correction: Timur Kuran

Feb 3rd 2011 | from PRINT EDITION

In his column last week about "The Long Divergence: How Islamic Law Held Back the Middle East", an excellent book by Timur Kuran, Schumpeter mis-spelled Mr Kuran's name. Sorry

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Index | Briefing

German business

A machine running smoothly

Feb 3rd 2011 | *BERLIN* | from PRINT EDITION

German companies great and small are making the most of globalisation. Their success owes more to judgment than to luck

THE silence is unsettling, as is the sight of half-assembled cars gliding about on robotic transporters that move as if they had minds of their own. The scene of this industrial serenity is Porsche's assembly line in Leipzig. The airy, almost clinical factory provides a good illustration of how, even as its European neighbours and other rich economies splutter fitfully out of recession, Germany has been zooming along the economic autobahn.

The production line that ends in Leipzig spans whole countries. Painted bodies for the Cayenne, a sport-utility vehicle, are brought by train from a factory owned by Volkswagen (with which a merger is pending) in Slovakia. Those for the Panamera, a hatchback, come in from Hanover. The robotic carriers then ferry them from one group of assembly workers to the next. Parts arrive just as they are needed. The system is flexible, allowing two different models to roll off the line in exactly the required numbers. The cars then head east and west to Porsche's two biggest markets, China and America.

The factory shows how Porsche has gained from globalisation-and how Germany has, too. On the demand side, the carmaker sells at premium prices to the world's fastest-growing big economy and to simply its biggest. On the production side, it uses expensive but flexible German labour on what can be seen and cheaper east European workers on what cannot. "Germany is by far the world's biggest winner from globalisation," says Thomas Mayer, Deutsche Bank's chief economist. "It has benefited from both increased division of labour on the production side and increased trade on the delivery side."

Germany's recent economic performance stands out among rich economies (see article). Last year its GDP grew by 3.6%, the fastest rate since the country was reunified in 1990. America managed 2.9%. Growth in the rest of the euro zone probably fell short of 1%. Exports have been Germany's main engine: they jumped by 21.7% in the year to November. In the first ten months of 2010 sales to China were already 17% higher than in the whole of 2009 and 46% higher than in 2007. No other big, rich economy has seen its exports to China grow so quickly in the past decade (see chart 1). No wonder that business confidence, according to a widely watched index produced by Ifo, a research institute at the University of Munich, is at a record high, having recovered from a horrid plunge in late 2008 (see chart 2).

The pace seems to be easing: *The Economist*'s poll of forecasters suggests GDP growth will slow to 2.6% this year, but that is still well ahead of the 1.5% expected for the euro zone as a whole. The success of German business is plain. It also raises a question: has Germany just been lucky to be making the sorts of things that China and other fast-growing economies happen to need now, or has it made its own good fortune? The answer is a bit of both, but there's probably been more skill than luck.

Start with the improvement of Germany's biggest companies, which a decade or so ago seemed to have been left behind by foreign rivals, even in sectors of traditional German strength. Japan's Toyota was on its way to becoming the world's biggest carmaker. America's General Electric (GE) was ensconced as the world's largest industrial company.

Corporate Germany looked old-fashioned. Big companies were enmeshed in cross-shareholdings with the country's leading banks that protected managers from the grumbles of other shareholders and from takeovers. German reliance on manufacturing looked like a weakness: the business of making things seemed certain to migrate to Asia or eastern Europe, and Germany's service industries were hidebound and over-regulated. Unemployment was chronically high and unit-labour costs were above the euro-zone average.

These days corporate Germany looks rather different. Volkswagen, the country's leading carmaker, wants to be the world's biggest by 2018. It is a realistic ambition. The industrial bits of Siemens are now larger than GE's (ie, once GE's media and financial businesses are stripped out). BASF, a chemicals powerhouse, has managed to keep expanding at home and abroad, even as production of basic chemicals has fallen in America and the rest of Europe.

The cross-shareholdings have been unwound: Deutsche Bank, for instance, no longer owns chunks of insurers, carmakers or sugar processors. Big companies are now concerned with serving their shareholders rather than workers and other stakeholders (even if few boast about it: in Germany it would not be popular).

New chief executives have culled underperforming operations and focused on growth, often abroad. Siemens, which used to be content to sell overengineered and overpriced trains and generators to captive German buyers, has taken a leaf from GE's book, selling businesses where it lacked scale, for instance in consumer electronics, and concentrating instead on areas in which it has a chance of being among the world's leaders, such as energy and medical technology. Once its primary concern seemed to be to preserve jobs in Germany. Now two-thirds of its employees are abroad. Linde has gone from being a diverse, second-rate engineering firm to become Europe's, and one of the world's, leading producers of industrial gases.

In the engine room

The main motor of Germany's growth, however, is the *Mittelstand*, a legion of mainly small and medium-sized firms, typically family-owned and highly specialised, that build products that dominate obscure branches of industry. If a particular job can best be done by a machine, then the chances are that the machine in question was built in a small town in Germany. Wirtgen is a leader in making machines that recycle tar and grit from old roads to be relaid as smooth new ones, as is Leitz in making wood-processing tools. Machines that make other things are a *Mittelstand* speciality. Kugler-Womako, a champion in production lines for printing passports and Winkler+Dunnebier, which makes machines that produce envelopes, are just two of the firms that Hermann Simon, a German management consultant, identifies as the country's "hidden champions".

In some respects the *Mittelstand* is a philosophical construct, rather than just a description of company size. Firms such as B. Braun, a family-owned maker of medical supplies, or Bosch, an engineering group owned by a charitable foundation, are a good deal larger than many listed firms, yet still espouse what they would claim are *Mittelstand* values: attention to detail, financial caution and co-operation between bosses and employees. Bosch, for instance, tightened its belt in the downturn without mass lay-offs. Last year its sales were a record euro47.3 billion ($62.6 billion), up by 24% from 2009, and it returned to profit. It plans to increase its labour force from 283,500 to about 300,000 this year. Most of the new staff will be abroad, especially in Asia.

Firms of all sizes have spread themselves abroad, in search not only of markets but also of cheaper production. Germany is not just a leading exporter; plenty of imports arrive in towns all over the country to be assembled into costlier goods and sent abroad again. Michael Huther, the director of the Cologne Institute for Economic Research, reckons that the import content of German exports has gone up by about ten percentage points to more than 20% in the past decade.

German firms have also been adept at outsourcing. In 2004 a study by McKinsey, a firm of consultants, concluded that the economy gained just euro0.80 (then about $1) for every euro1 of corporate spending that German firms sent offshore. At the time America gained more than $1 for each $1 of spending its companies moved abroad. Not only were German firms less good at finding productive opportunities in foreign countries; German workers, if displaced, were less likely to find new jobs quickly. The gap seems to have narrowed, as companies have reaped the benefits of moving production, and some services, to cheaper places, while jobs have been created in Germany too. Recent studies suggest that German firms have cut labour costs by as much as 70% by shifting production of some components abroad.

In this Germany has been blessed by geography, as some of its main manufacturing regions abut formerly communist states with cheaper but still well-educated workforces. This has allowed Porsche, Volkswagen and others to move production to the east far more easily than, say, British firms have been able to do.

Forced to be flexible

Cheap labour on the doorstep has also helped to hold down costs at home. The ease with which jobs can be shifted has given German employers extra power in pay negotiations. This goes a long way to explaining why real wages in Germany have remained essentially flat in the past decade while they have climbed in most other countries that use the euro. Employers and unions have also made agreements to establish flexible working hours: workers put in extra shifts at busy times and have time off when things are slack. "We had to learn to breathe with the cycle," says Ralph Wiechers, the chief economist of the VDMA, an industry group.

German industry's steely ability to hold down costs was also helped by the Hartz reforms, introduced when Gerhard Schroder, a Social Democrat, was chancellor between 1998 and 2005. Many in business credit the economy's rebound to these reforms, which freed up labour markets and made work more attractive than life on unemployment benefits.

For workers, who conceded flexibility and agreed to wage restraint, the bargain has meant they have kept their jobs, even during the depths of the downturn when most German firms cut working hours instead of firing people. This was especially true in the *Mittelstand*. Engineering firms, which saw orders collapse by almost a quarter during the recession, cut employment by about 8%. About 10% of smaller firms had to reject orders because they could not get credit, says Mario Ohoven, president of the German Association of Small and Medium-sized Businesses. Only a small fraction of these shed workers.

The costs, and risks, of keeping people on the payroll were partly shouldered by the state. Nevertheless, they represented a belief that demand for German products would rebound quickly. It did, and firms were in a strong position to speed up production. Now that German unemployment is shrinking again-at 7.4%, seasonally adjusted, the rate is at its lowest since 1992-many firms are fretting about a shortage of skilled employees.

But costs are only part of the equation. Bain, a management-consulting firm, reckons that German companies have come out of the West's economic crisis nimbler than ever. Many would have planned capital spending once a year, for instance. Now they do so every few months. "The latest recession went so deep that it finally unlocked some real change," says Oliver StrÃ¤hle, a partner at Bain.

Precision pays

As important has been the bloodhound-like ability of Germany's firms to sniff out niches where competition is the least fierce. From the *Mittelstand* up, German firms have found a blend of engineering, technology and service that has allowed them to increase their share of world markets. They have done this by excelling in areas that demand constant, incremental innovation. The purchase price of a specialised machine may be less important than its reliability and the support and services that are sold with it.

The state has helped with research support as well as with the Hartz reforms, doling out cash in support of industries that it thinks are important areas of growth such as green energy, security or biotechnology. It supports an extensive research infrastructure that small and medium-sized firms can tap into when they need help, lowering the barriers to innovation. The Fraunhofer research centres spend about euro1.6 billion a year and employ more than 18,000 people. Most of their work (and about two-thirds of their funding) is related to helping firms with specific projects.

Green machine

The government has tried to create winners as well as support them. Germany's growing green-energy industries are largely creations of the state. Generous subsidies have made the country the world's biggest market for solar-power installations. It may have sucked up half of global production in 2010. Almost a quarter of patents awarded in 2007 for renewable-energy technologies went to German firms.

The results of this have been mixed. On the German bank of the river Oder stand factories that the government had hoped would be world-beaters in making photovoltaic cells. But they have been undercut by Asian competitors which now supply most of the gleaming modules sprouting in Bavarian fields. Germans have, though, become top dogs at making the machines that make the cells: Manz Automation is one of the biggest producers of equipment used to make thin-film solar cells. Three-quarters of its machines are sold to Asia.

Germany's success in emerging markets is a source of both pride and vulnerability, for it would be hard hit were growth there to slow. The extent to which exports to a single market-China-have flattered the income statements of German firms is worrying. Growth in many of Germany's other markets, in the euro area and beyond, is already sluggish. This year looks as if it will be harder than last.

Moreover, Germany still has hard work ahead of it. The services sector, despite some liberalisation (for instance, in retailing) is still underdeveloped. A system of schooling that has proved reliable in turning out industrial workers needs an overhaul (see article). For all of the success of German firms in exporting goods, some German banks made the mistake of buying American mortgage debts. The banking system, especially the publicly owned bit, is yet to recover fully.

None of these problems is insurmountable and Germany, unlike many countries, has the time and budget to deal with them. The risk, however, is that Germany may choose to bask in its triumph and to slip back into old habits, suppressing domestic demand and focusing all its efforts on exporting more. "We are living a bit on borrowed time in a sweet spot where the deficit countries haven't yet adjusted," says Deutsche Bank's Mr Mayer. "One of the big risks is complacency."

Index | Briefing

Education and skills

Tinker, tailor, glass-eye-maker

Feb 3rd 2011 | *BERLIN* | from PRINT EDITION

The system of training youngsters has done well but could do better

GERMANY'S economic success presents something of an educational puzzle. On the one hand, its schools turn out a workforce capable of producing the goods that have made its companies the export champions of the world. On the other, the academic achievements of its schoolchildren, measured in international tests, look only mediocre. The reading abilities of German 15-year-olds, according to the PISA studies published by the OECD, are below the average for rich countries. In a world where brainpower matters more and more, how does German business thrive?

The answer is that a combination of schooling and apprenticeship has proved a reliable supplier and shaper of the sort of labour German businesses need to make goods of high quality, even as similar jobs have disappeared in other rich economies. At the age of 10 or 11 about two-fifths of children are selected to go to a *Gymnasium.* A lot of these go eventually to university. Most who do not, and many of those at less academic schools, go ultimately into specialised training for one of around 350 trades, from gardening to glass-blowing.

Students divide their time between classrooms and the factory floor, acquiring a lot of knowledge on the job. According to many company bosses, this makes them both expert and flexible. Because German jobs are fairly secure, many employees invest time in learning new skills. Companies invest in teaching them, too-for example, to use computers to design parts-because their workers are not likely to quit.

Moreover, basic education seems to be getting better. The first PISA study, published in 2001, in which German children did poorly, caused much national soul-searching. Germany's standing in the OECD rankings has improved a great deal in the past few years.

Even so, the system has flaws. Some worry, for example, that a stronger general education is needed to equip young Germans to change trades should demand for their specific expertise dry up.

A bigger concern is that early selection fails children from poor and immigrant families, who are likeliest to attend the least academic schools and to miss out on apprenticeships. Partly for this reason, there is a large group of students at the bottom of the rankings-which explains why the German average is still below par. "It is a schooling system that has left a large fraction of students behind," says Andreas Schleicher of the OECD.

Some think that this may eventually cost the economy. Ludger Wossmann, of the Ifo institute at Munich University, reckons that the best long-run predictor of a country's economic growth rate is the performance of its children in comparative tests in science, maths and so forth. Germany's scores, he points out, do not bode well.

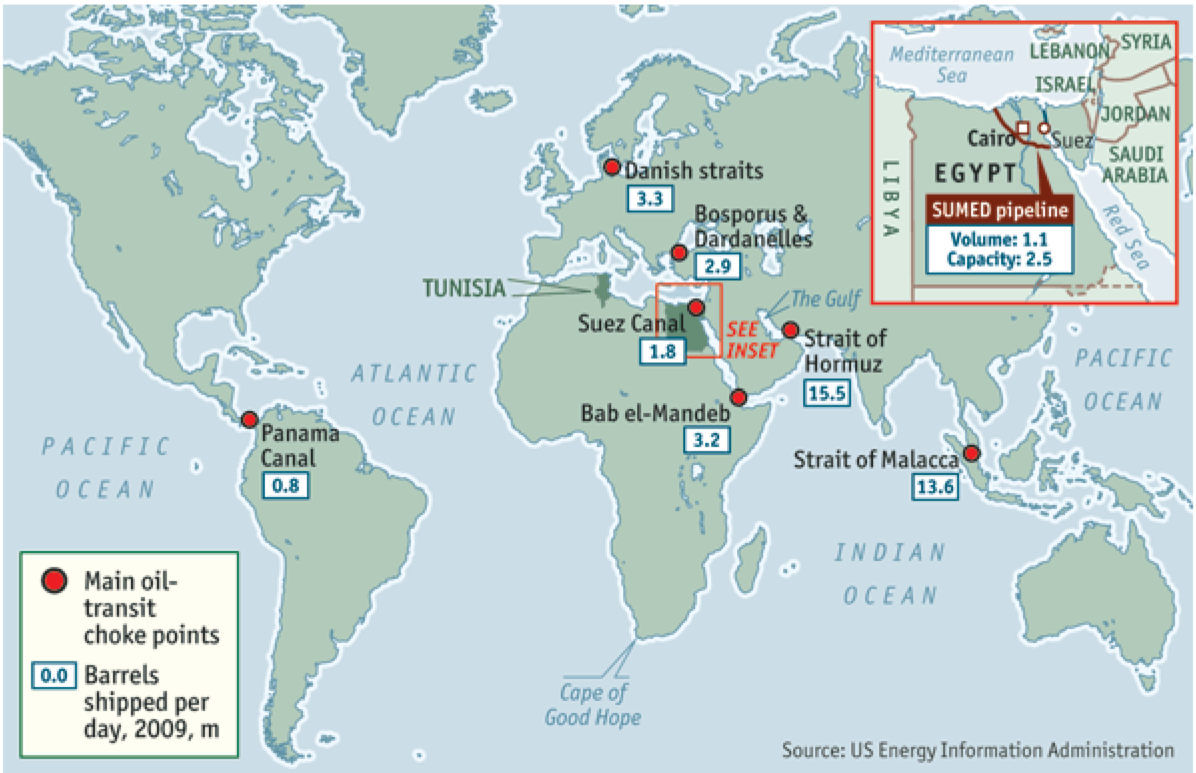
Index | Finance and Economics

Commodities and the Middle East

Protests and the pump

Feb 3rd 2011 | from PRINT EDITION

The Egypt effect may be more pronounced for food than oil



THE tide of unrest sweeping Egypt has whipped up waves in the oil market. Anxiety often has a role in determining the price of black gold and traders, with plenty to fret about, sent a barrel of oil above $100 for the first time in two years on January 31st. Fears abounded that the upheavals in Egypt might disrupt the passage of tankers through the Suez Canal and, worse still, that the popular uprisings in Egypt and Tunisia might spread across the Middle East.

So far the concerns seem overblown. Egypt is a small producer and actually imports a little oil. It is better known for its role as a transit route. Over 4% of global supplies of oil-after the lows of 2009 that equates to nearly 4m barrels a day now, according to Barclays Capital-are transported through the country, either by ship on the Suez Canal or along the SUMED pipeline (see map). Crude and refined products travel both ways on the canal (along with many other goods). But there is little hint that Egyptian authorities have any intention of disrupting this trade or that protesters have the means to prevent the oil from moving, even if they wanted to.

If the canal shuts down, the pipeline has the spare capacity to take much of the displaced crude northward. Even a total halt would be far from catastrophic. There are plenty of spare tankers that could shift Gulf oil the long way to Europe around the Cape of Good Hope-putting a couple of weeks and some added expense on the journey. Some rebalancing of global flows might lessen the impact of plying the longer route: Gulf oil bound for Europe could be dispatched east and African oil bound for Asia sent to Europe instead.

The world is in any case in a position to take some pain. It has decent stores of oil. As Adam Sieminski of Deutsche Bank points out, OECD inventories, with enough to cover 59 days of consumption, are relatively high compared with the historic average of 55 days. But the amount that China, the world's second-largest importer, has in reserve is unclear.

A far bigger concern in oil markets is that the troubles in Tunisia and Egypt could spread more widely in the Middle East, given the same mixture of unemployment, inequality and autocratic government that has underpinned the unrest in Egypt and Tunisia (see article). But even if similar problems did arise in the Gulf, Algeria or Libya it is far from clear that the spigots would be turned off. The most recent war in Iraq disrupted Gulf oil supplies for only three weeks.

Route canal

Events in Egypt may turn out to have a greater impact on other commodities, notably food. High food-price inflation has cut spending power across emerging economies (see article), where keeping bellies full accounts for a much larger share of income than in rich countries. The high cost of food is one reason that protesters took to the streets in Tunisia and Egypt. The price of bread has shot up since last summer when a drought in Russia, one of the world's largest wheat suppliers, hit harvests and prompted an export ban.

Analysts at Goldman Sachs point out that countries in the region may feel the need to head off political instability by spending to stockpile grain. Saudi Arabia, Algeria and Jordan have all stepped up efforts to build stockpiles. This could raise the pressure on other countries to hoard wheat, pushing prices even higher. In the short term this might even result in lower oil prices if OPEC countries pump more out of the ground to raise cash to assuage uppity populations.

Irrespective of events in the Middle East, however, the pressure on oil prices is likely to grow. The market has recovered very strongly from the lows of 2009 thanks to bumper growth in emerging markets and a decent recovery in America. As Francisco Blanch of Bank of America Merrill Lynch points out, OPEC has not yet responded with extra supply to tame prices. It regards oil, priced in dollars, as a currency that the Federal Reserve is debasing with its "quantitative easing" money-printing, and would rather leave it in the ground for now. Even if OPEC eventually makes use of its spare capacity the world's thirst for oil could start to outpace supplies in the next two years. Then $100 a barrel could look like a bargain.

Index | Finance and Economics

Inflation around the world

Parsing prices

Feb 3rd 2011 | from PRINT EDITION

Rising inflation is not as worrisome as it appears, at least for now

INFLATION is back. Despite a weak recovery in much of the world, the threat of rising prices preoccupies policymakers and the public. Concerns are greatest in emerging markets. Inflation stands at 4.6% in China and 5.9% in Brazil; in India it is almost 10%, if below last year's high. But it is on the rich world's agenda, too (see chart).

Euro-area inflation hit 2.4% in January, according to data out this week. Jean-Claude Trichet, the president of the European Central Bank, has been talking tough, recalling the ECB's July 2008 rate rise when concern over inflation trumped a wobbling economy. In Britain inflation has been above its 2% target since December 2009 and stood at 3.7% in December. Mervyn King, the governor of the Bank of England, gave warning in January that it will soon climb to 4-5%. Even in America, where inflation has been at historic lows, it jumped to 1.5% at the end of last year.

Much of the surge in inflation reflects dearer commodities. As well as oil and food, metals prices have been soaring: the price of copper hit a series of record highs this week. More expensive raw materials will work their way through the supply chain over the coming months, pushing up on inflation. Another part of the story in Europe is the effort to plug fiscal gaps by increasing VAT, a consumption tax. A hike in VAT at the start of the year will have driven prices higher in Britain in January.

A rise in commodity prices or taxes has only a temporary effect on inflation, however, with the price rise dropping out of annual comparisons after a year. The stuff of nightmares for central bankers is that this leads to a more pernicious type of inflation. Price rises change expectations of inflation, leading workers to bid for wage increases that preserve their buying power and firms to push through price increases, generating a vicious spiral.

These "second-round effects" are worth losing sleep over, but only when there is already inflationary pressure in the wider economy, from a tight labour market and firms running factories at full pelt. Such overheating seems some way off for advanced economies. The unemployment rate is in double digits in the euro area, above 9% in America and 7.9% in Britain. Wage growth has been weak, running below 1% in the euro zone and at around 2% in America and Britain.

Inflation expectations have edged up a little in recent months. But even if workers expected inflation to let rip, they would be in a bind. Karen Ward of HSBC reckons anxious employees won't ask for more pay for fear that they will end up getting the sack instead.

Rich-world economies are also running well below capacity. According to the OECD, in 2010 the G7 economies were anywhere between 2.4% (Japan) and 4.7% (Italy) below potential output. Such estimates are notoriously imprecise. But if the recovery had already eliminated excess capacity they would be in the wrong city, not just the wrong ballpark.

The story is very different in emerging economies. Many of these got back to their pre-crisis levels of output in 2009. With capacity constraints starting to bite, underlying inflation is on the up. Households' inflation expectations are also rising. In China they are at their highest for over a decade and there are signs of growing wage pressure. Higher wages are not, by themselves, a bad thing, especially in a country like China where pay has for years failed to keep pace with rapid productivity growth. The danger comes when loose monetary conditions and an overheating economy mean prices and wages chase each other upward.

To prevent that, central bankers have been fighting back with higher interest rates and higher reserve requirements. The Brazilian and Indian central banks raised rates last month; in total, they have now hiked their policy rates by 2.5 and 1.75 percentage points respectively. China's central bank recently raised reserve requirements for the seventh time in a year.

For all that, monetary conditions remain extraordinarily loose. According to JPMorgan Chase, real policy rates in emerging economies-the official interest rate minus core consumer-price inflation-are at their lowest level since 2000. Core consumer-price inflation (which excludes food and energy prices) remains below its 2008 levels. But vigilance is needed. A continuation of booming growth and cheap money will cause trouble in the end.

Index | Finance and Economics

America's housing market

Suspended animation

Feb 3rd 2011 | *Washington, dc* | from PRINT EDITION

Falling prices and rising foreclosures cause a policy quagmire

WHEN the federal government took control of Fannie Mae and Freddie Mac, two teetering mortgage-finance agencies, in September 2008 it was meant to be temporary. Yet their surreal existence as shareholder-owned prisoners of the state looks likely to drag on for years.

Nobody is happy with the status quo. The federal government routinely guarantees 85% or more of newly issued residential mortgages, primarily through Fannie, Freddie, and the Federal Housing Administration (FHA). But withdrawing that support is impossible while the housing market is so fragile. The Treasury is scheduled to release a proposal for overhauling America's housing-finance system as early as next week. But rather than resolve the status of Fannie and Freddie, it is likely to lay out several options, none of which is likely to become law any time soon.

Explore and compare global housing data with our

The role of the FHA, which is to guarantee mortgages with low downpayments to families of modest means in return for a fee, is relatively uncontroversial. The big debate is to what extent the federal government should also guarantee mortgages to middle-class families. The Treasury's options will include doing so through a stand-alone federal agency-perhaps a nationalised version of Fannie or Freddie-or by selling an explicit government guarantee for a fee to any lender, much as the Federal Deposit Insurance Corporation charges banks to insure their deposits.

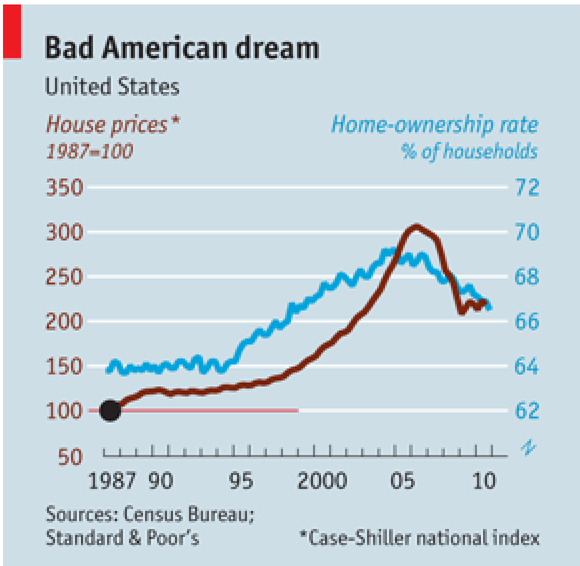
Neither option is likely to satisfy Republicans who have previously pushed either to wind up or to privatise both agencies in the next two years. Since taking control of the House of Representatives in January they have agreed to a longer transition period but still insist the federal government should no longer have a substantial role in the mortgage market.

That option may be among those laid out in the Treasury's paper. But few inside the Obama administration support it. They believe the next time the mortgage market is in trouble the federal government will step in again. Better to accept the fact now and charge for it, they reason. Nor would America's still-powerful real-estate industry let its federal safety-net go without a fight. Republicans, says Michael Barr, a former Treasury official, are torn between "the tea party and the home builders and realtors, which means they won't be ready to cut a deal for a while."

The Treasury can start to trim back the firms' role in other ways. Fannie and Freddie are allowed to guarantee mortgages as big as $729,750, but in October that limit should start to drop, leaving more of the market to private firms. The fees they charge for their guarantee can also be raised, crowding in private insurance.

But the Treasury's power over the pair is limited as long as they remain under the control of the Federal Housing Finance Agency, an independent agency. The Treasury cannot, for example, force them to write down mortgage principal to mitigate defaults, even though taxpayers rather than shareholders would bear any associated costs. That is a pity, given the government's flailing foreclosure strategy.

When Barack Obama first unveiled the Home Affordable Modification Programme (HAMP) in March 2009, the hope was to modify 3m-4m mortgages by subsidising payment reductions through the Troubled Asset Relief Programme (TARP), a bail-out fund. But by the end of last year, only 522,000 loans had been permanently modified. Of the $50 billion originally allocated to the programme, just $1 billion had been spent, according to Neil Barofsky, the TARP's watchdog. "It's remarkably dispiriting," he told Congress on January 26th.



The Treasury argues that many borrowers it thought were eligible for help turned out not to be because they earned too much, their homes were too expensive or were not their primary residence, or because they couldn't meet documentation requirements. Many who were eligible, it says, got a private modification instead.

Still, the lack of progress means foreclosures are likely to be higher this year than last. That will maintain downward pressure on home prices, which have resumed their fall after the expiry of a tax credit last year. The home-ownership rate fell to 66.5% at the end of 2010, its lowest level since 1998, as many former and would-be home-owners rent (see chart). Long after the crisis and the recession, the housing bust that caused them lingers on.

Index | Finance and Economics

Spain's savings banks

Roll up, roll up

Feb 3rd 2011 | *MADRID* | from PRINT EDITION

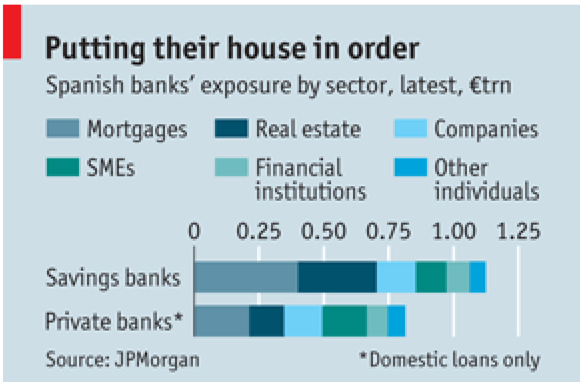
The weakest links in Spain's financial system are being pushed into action

SPAIN'S unlisted savings banks, or *cajas*, are facing their own revolution. Last month the government announced that it would require Spanish lenders to boost capital ratios by September, or face partial nationalisation. That leaves several *cajas*, and at least one bank, needing to boost capital. Jose Luis Rodriguez Zapatero, the prime minister, says the majority of savings banks will attract private capital. But "some will see their viability compromised and there the state will enter."

This is encouraging. The government at last recognises the need to do more to shore up its financial system. It has already injected euro15 billion ($20 billion) of convertible preference shares into the *cajas* via the Fund for Orderly Bank Restructuring (FROB) and the Deposit Guarantee Fund. Yet most Spanish lenders are still shut out of the wholesale credit markets.

The government will require all lenders to raise core-capital levels to 8% by September. In the case of unlisted entities, or those with a high dependence on wholesale funding, the target will be as high as 10%. These ratios are far above regulatory requirements almost everywhere else in Europe, prompting complaints from the *cajas* that the new rules are arbitrary. Mr Zapatero says the higher capital bar is driven by the fact that savings banks do not have the same capacity to be in the capital markets, and therefore need to be stronger.

The questions now are how much capital the *cajas* will need, and how much private interest they can excite. The government reckons the total bill will come to euro20 billion, on top of the money already put in. Analysts are less sanguine. Their estimates range widely but have a mean of around euro50 billion of extra cash.



As for private-sector interest, bankers say investors are jamming their phones. Perhaps, but investors want to know how FROB capital will rank alongside private capital and what influence regional politicians will have in future. A bigger stumbling-block is that the plan does not address the *cajas*' bad-loan issue head-on. Their total exposure to property developers may yet turn out to be lower than previously thought, because of the way loans are classified, but the *cajas* are still more vulnerable than the banks (see chart). Provisions are around 30% of souring real-estate assets for those savings banks that are involved in mergers. Given potential for further deterioration, a figure of 40-50% would be more prudent.

La Caixa, Spain's second-largest *caja*, is one step ahead of the game. In a complex operation which it hopes to close before August, it will inject its banking business into its listed holding company, Criteria. Intriguingly, it has left its foreclosed real-estate assets outside the listed bank, making the new "CaixaBank" more attractive for outside investors. Mr Zapatero rejects the idea of creating a systemic "bad bank" to purchase dud loans, pointing out that all Spanish lenders will soon have provided detailed disclosure on their property assets. But investors are wary. "No amount of statistics will give you comfort until you do proper due diligence," says one.

To attract buyers, *cajas* are likely to go at a discount to listed peers. Even so, some clearly have more chance of attracting private capital than others. La Caixa is one. A new seven-member bank headed by Caja Madrid hopes to list before the summer: as the largest savings bank by assets, it will be a litmus test of investor appetite. Others will have to take FROB money to comply with the capital requirements, at least initially. Mr Zapatero says that these *cajas* could then be bought by a domestic or foreign bank, or by a large *caja*. Only the strongest savings banks will survive in their present form, he warns. By the end "they will be almost unrecognisable."

Index | Finance and Economics

Carbon trading

Green fleeces, red faces

Feb 3rd 2011 | from PRINT EDITION

A theft of carbon credits embarrasses an entire market

IT IS, according to enthusiasts for carbon markets, a sort of backhanded compliment. Scoffers may think the trading of carbon emissions cannot be taken seriously as a proper commodity market. But hard-nosed criminals have seen that it involves enough real money to be worth casing.

Unfortunately, the criminals also spotted that the people who were not taking the market seriously enough included the European Commission and the EU's member states, which oversee the Emissions Trading Scheme (ETS), the world's biggest market in carbon emissions. In early January thieves took advantage of lax security to steal over 3m carbon credits (about 2 billion are issued each year). They managed to take 1m from Holcim, a cement maker, half a million from the Austrian government, a bunch more from various accounts held in the Czech Republic and some from the Greek registry. The market value of the haul is about euro45m ($62m).

Within the ETS the carbon credits which large emitters need to surrender to governments in order to keep emitting are held in electronic form in national registries. The thieves managed to break into the accounts in which companies keep their credits on some of these registries and transfer the credits to other accounts, from which they could quickly be sold on. Europe's registries were closed down on January 19th, to reopen only when better security standards are in place. Some registries were expected to reopen by February 4th but as long as they remain closed spot-market trading is impossible, since no one can get at their credits.

This is not in itself disastrous. Most carbon trading is in derivative contracts, not on the spot market, and the largest registries will surely be reopened in fairly short order. But the thefts have an insidious knock-on effect, in that anyone in the market might now feel at risk of receiving stolen goods. The legal implications of this differ across countries. In Britain stolen credits could be confiscated from people who have bought them in good faith. The care necessary to avoid such risks, which might involve buying credits only from governments, could reduce liquidity.

The response so far has focused on making it harder for a malefactor to get into someone else's account. A more thoroughgoing approach would be to make it harder for him to set up an account of his own. Unlike oil, gold and other commodities, carbon credits have no existence outside the registries' databanks. Without a registry account there is nowhere to steal the credit away to. And at the moment it is extremely easy to open an account.

The mischief that can be done with a registry account is not limited to theft. VAT fraud, in which tax is charged as part of a transaction but not surrendered to any government, has long been a problem in the market. In December, for instance, Italian police announced they were investigating a euro500m VAT fraud on a carbon exchange. Some countries have changed their rules to clamp down on this, others have not. A lot of money-laundering is also thought to be going on.

There are good reasons to want markets to be as open to participants as possible. But the ETS seems to go too far. Restricting the right to open an account to large carbon emitters-which have to have them for compliance purposes-and financial companies regulated through Europe's Market in Financial Instruments Directive (MiFID) would be a promising way to cut theft, fraud and money laundering all at once, says Trevor Sikorski of Barclays Capital. The International Emissions Trading Association, an industry body, called for "know your customers" rules, a step in this direction, in a letter to the EU that was sent a year ago. It is time to start catching up with the felons.

Index | Finance and Economics

Terra Firma and EMI

The magical misery tour

Feb 3rd 2011 | from PRINT EDITION

Citigroup takes control of a music giant

The Fab Foreclosed

PRIVATE equity is no stranger to public embarrassment. But Terra Firma's struggle to control EMI, a British music label whose assets include the Beatles' back catalogue, has been particularly humiliating.

Terra Firma, a private-equity firm run by Guy Hands, bought EMI for pound4.2 billion ($8.3 billion) in 2007. But the recession and declining music sales made it impossible for Terra Firma to pay off EMI's massive debts. Last year Terra Firma sued Citigroup, the bank that financed the deal, claiming it defrauded it into paying too much. The jury ruled in favour of Citi, leaving Mr Hands to renegotiate debt payments or lose the label.

In the event the end came sooner than expected: on February 1st Terra Firma handed EMI over to Citi. Terra Firma's next equity payment, of pound200m, was not due until June but it was clear that the firm's investors wouldn't fork over more money to keep EMI. Mr Hands decided to pre-empt the inevitable and turn his attention to managing the other companies he owns.

Citi immediately cleansed EMI's balance-sheet, reducing its debt from pound3.4 billion to pound1.2 billion. That makes it almost impossible for Citi to recoup its losses from its own entanglement with the label. EMI is worth around pound1.5 billion, far less than the pound2.2 billion in write-downs the bank has taken. But it does give the bank a better chance of finding a buyer for EMI.

Indeed, Citi may have had its own reasons for moving fast to take control. Warner Music Group, a major music company partly owned by a consortium of private-equity firms, is reportedly putting itself up for sale. Citi doesn't want a buyer to snap up Warner and not EMI, says Claire Enders of Enders Analysis, a media-research firm. BMG, a music-publishing company owned by Bertelsmann, a media conglomerate, and KKR, another private-equity firm, could be interested in buying either. Warner itself may decide to go after EMI.

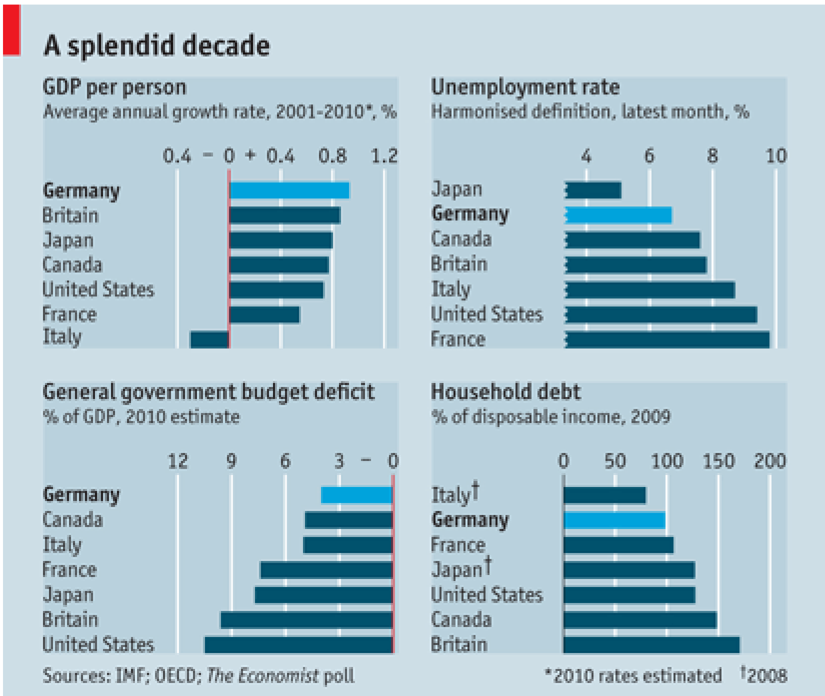
If EMI's fate is uncertain, the same is true of Terra Firma. The private-equity firm has around euro2 billion ($2.8 billion) left to invest from its two active funds, but it seems unlikely that even fantastically lucrative returns from those deals could erase investors' bitter memories of the pound1.75 billion in equity they lost in EMI. Many in the industry wager the firm will not be able to raise another fund. Certain executives at Citi probably wouldn't mind that too much.

Index | Finance and Economics

Economics focus

Vorsprung durch exports

Which G7 economy was the best performer of the past decade? And can it keep it up?



THE euro zone may be limping, but its largest member is sprinting. Germany grew at its fastest pace for two decades in 2010. An expansion rate of 3.6% put it ahead of most other rich economies, including America, whose GDP grew by 2.9% last year. Sceptics argue that Germany's strong rebound merely follows a deeper drop in output during the recession than in most other economies. For a proper assessment of countries' relative performance, you need to take a longer period, such as a decade.

At first glance, the popular perception of Germany as a laggard seems borne out by the numbers. Germany's GDP has expanded by an annual average of only 0.9% over the past ten years, just half the pace in America. (For countries which have not yet published their full-year figures, we have used 2010 estimates from *The Economist*'s poll of forecasters.) But that is misleading. America's economy grew more quickly partly because its population rose by almost 1% a year, thanks to immigration and a higher birth rate. In contrast, the number of German citizens is shrinking. That matters because a better gauge of prosperity is not growth in GDP, but growth in GDP per person or average income.

This measure produces a very different ranking. Over the past decade Germany had the fastest growth in GDP per person among the G7 club of rich economies; America was in only fifth place (see chart). Using GDP per head also casts new light on the recent recession. Measured by the fall in output per head from the fourth quarter of 2007, Germany's recession was no deeper than America's. Germany is also the only G7 country where GDP per head last year was back above its 2007 level.

Berlin beats Bay Area

Germany scores highly on several other economic gauges, too. It is one of only two countries in the G7 where the unemployment rate ended the decade lower than it began. Its current rate of 6.6% (using the standardised international definition) is the second-lowest, well below America's 9.4%. For the first time eastern Germany now has a lower jobless rate than California.

Germany's public- and private-sector finances are also in much healthier shape, mainly because a conservative mortgage system helped it avoid a housing and credit bubble. Household debt has fallen over the past decade from 115% of their disposable income to 99%. Over the same period, Britain's soared from 117% to 170%, America's from 100% to 128%. Germany also has the smallest budget deficit and least government debt relative to GDP. Based on the measures in the chart-growth in GDP per head, unemployment, budget deficits and household debt-Germany has been the G7's best performer over the past decade. The IMF forecasts that Germany will also have the fastest growth in GDP per head over the next five years.

Two potential problems spoil this rosy picture, however. The first lies in another standout number-the country's huge current-account surplus, which stood at 5% of GDP in 2010 and is seen by Germans as further proof of the country's economic prowess. Germany is the only G7 economy whose share of world exports has not fallen since 2000, despite Chinese competition. An increase in net exports has accounted for no less than two-thirds of Germany's total GDP growth over the past decade, far more than any other big economy. Net exports accounted for half of Japan's GDP growth and only about one-tenth of China's.

This is not a sustainable engine of growth. To contribute to GDP as it has in the past, Germany's trade surplus would have to keep rising every year. That would leave Germany increasingly vulnerable to recessions elsewhere, as well as to the risk of a protectionist backlash. It is also improbable. Germany's trade surplus has swollen only partly at the expense of other rich countries: two-fifths of the increase over the past decade was with emerging economies. Indeed, its surplus with America has shrunk as a share of America's GDP over the past decade. But Germany does run a large surplus with the rest of the EU, where demand will be much weaker over the coming years.

Germany's external surplus reflects chronically weak domestic demand as much as external strength. Consumer spending has grown by an annual average of only 0.3% over the past decade, depressed by prolonged wage restraint and high household saving. An ageing country such as Germany should save more than it invests (ie, run a current-account surplus) to build up a nest-egg of foreign assets that will pay for future pensions as the labour force shrinks. But Germany's external surplus is too big. Much of it has also been poorly invested, in everything from American subprime bonds to Greek government bonds.

Germany's second big weakness is that its productivity growth has been relatively slow. Productivity in manufacturing is high by international standards but lags in the services sector, in part because of red tape that restricts competition. Over the past decade slow productivity growth has been offset by the fact that Germany has put more people to work, thanks to labour-market reforms in 2003-05. But over the coming years Germany's labour force will shrink as a share of its population. Unless productivity growth perks up, the rise in GDP per head will slow.

Germany has topped the G7 league over the past decade mainly because it avoided a credit bubble. But to maintain its performance over the next decade it needs to boost both domestic spending and its services sector. The good news is that most of Germany's growth last year did come from domestic demand, not exports. Business investment took the lead, but in the fourth quarter real consumer spending was almost 2% higher than a year ago. The lowest unemployment rate for almost 20 years is likely to push up wages this year and to encourage households to spend more of their income. A recovery which is "Made in Germany" would enable the country to keep up the pace.

Index | Science & Technology

Waste disposal

Turning garbage into gas

Feb 3rd 2011 | from PRINT EDITION

Atomising trash eliminates the need to dump it, and generates useful power too

DISPOSING of household rubbish is not, at first glance, a task that looks amenable to high-tech solutions. But Hilburn Hillestad of Geoplasma, a firm based in Atlanta, Georgia, begs to differ. Burying trash-the usual way of disposing of the stuff-is old-fashioned and polluting. Instead, Geoplasma, part of a conglomerate called the Jacoby Group, proposes to tear it into its constituent atoms with electricity. It is clean. It is modern. And, what is more, it might even be profitable.

For years, some particularly toxic types of waste, such as the sludge from oil refineries, have been destroyed with artificial lightning from electric plasma torches-devices that heat matter to a temperature higher than that of the sun's surface. Until recently this has been an expensive process, costing as much as $2,000 per tonne of waste, according to SRL Plasma, an Australian firm that has manufactured torches for 13 of the roughly two dozen plants around the world that work this way.

Now, though, costs are coming down. Moreover, it has occurred to people such as Dr Hillestad that the process could be used to generate power as well as consuming it. Appropriately tweaked, the destruction of organic materials (including paper and plastics) by plasma torches produces a mixture of carbon monoxide and hydrogen called syngas. That, in turn, can be burned to generate electricity. Add in the value of the tipping fees that do not have to be paid if rubbish is simply vaporised, plus the fact that energy prices in general are rising, and plasma torches start to look like a plausible alternative to burial.

An electric atmosphere

The technology has got better, too. The core of a plasma torch is a pair of electrodes, usually made from a nickel-based alloy. A current arcs between them and turns the surrounding air into a plasma by stripping electrons from their parent atoms. Waste (chopped up into small pieces if it is solid) is fed into this plasma. The heat and electric charges of the plasma break the chemical bonds in the waste, vaporising it. Then, if the mix of waste is correct, the carbon and oxygen atoms involved recombine to form carbon monoxide and the hydrogen atoms link up into diatomic hydrogen molecules. Both of these are fuels (they burn in air to form carbon dioxide and water, respectively). Metals and other inorganic materials that do not turn into gas fall to the bottom of the chamber as molten slag. Once it has cooled, this slag can be used to make bricks or to pave roads.

Electric arcs are a harsh environment to operate in, and early plasma torches were not noted for reliability. These days, though, the quality of the nickel alloys has improved so that the torches work continuously. On top of that, developments in a field called computational fluid dynamics allow the rubbish going into the process to be mixed in a way that produces the most syngas for the least input of electricity.

The first rubbish-to-syngas plants were built almost a decade ago, in Japan-where land scarcity means tipping fees are particularly high. Now the idea is moving elsewhere. This year Geoplasma plans to start constructing a plant costing $120m in St Lucie County, Florida. It will be fed with waste from local households and should create enough syngas to make electricity for more than 20,000 homes. The company reckons it can make enough money from the project to service the debt incurred in constructing the plant and still provide a profit from the beginning.

Nor is Geoplasma alone. More than three dozen other American firms are proposing plasma-torch syngas plants, according to Gershman, Brickner & Bratton, a waste consultancy based in Fairfax, Virginia. Demand is so great that the

Westinghouse Plasma Corporation, an American manufacturer of plasma torches, is able to hire out its test facility in Madison, Pennsylvania, for $150,000 a day.

Syngas can also be converted into other things. The "syn" is short for "synthesis" and syngas was once an important industrial raw material. The rise of the petrochemical industry has rather eclipsed it, but it may become important again. One novel proposal, by Coskata, a firm based in Warrenville, Illinois, is to ferment it into ethanol, for use as vehicle fuel. At the moment Coskata uses a plasma torch to make syngas from waste wood and wood-pulp, but modifying the apparatus to take household waste should not be too hard.

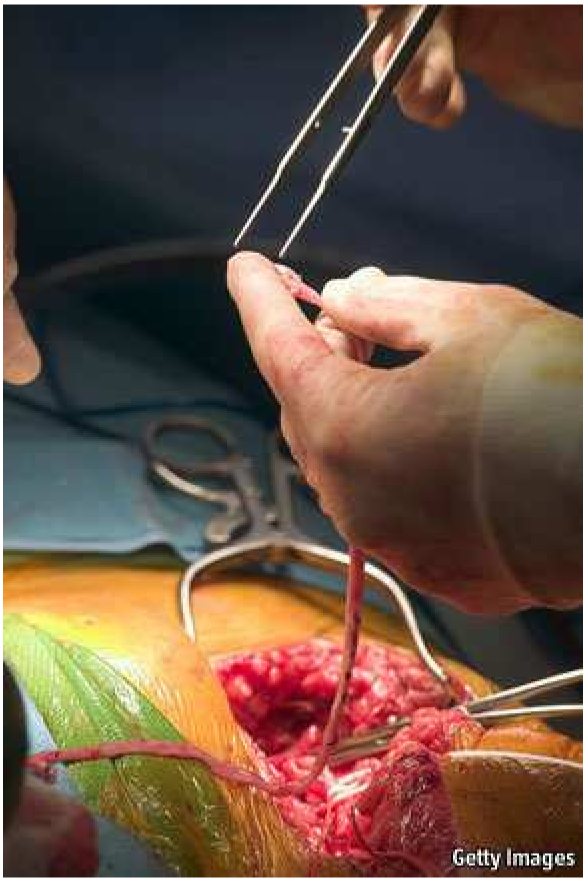
Even if efforts to convert such waste into syngas fail, existing plants that use plasma torches to destroy more hazardous material could be modified to take advantage of the idea. The Beijing Victex Environmental Science and Technology Development Company, for example, uses the torches to destroy sludge from Chinese oil refineries. According to Fiona Qian, the firm's deputy manager, the high cost of doing this means some refineries are still dumping toxic waste in landfills. Stopping that sort of thing by bringing the price down would be a good thing by itself.

Medical technology

A not-so-hard graft

Feb 3rd 2011 | from PRINT EDITION

Transplantable blood vessels can now be grown as desired



The old-fashioned way

ANOTHER advance in the emerging technology of regenerative medicine has just been announced. It should soon be possible to make blood vessels that can be stored and used "off the shelf" for surgery that requires arteries or veins to be bypassed. The vessels, prototypes of which are described this week in a paper in *Science Translational Medicine*, are made by Humacyte, a small firm based in Durham, North Carolina, that was founded by Shannon Dahl, the paper's principal author, and two colleagues.

The recipe Dr Dahl and her colleagues concocted begins with smooth-muscle cells. Smooth muscle is different from the familiar sort that cloaks bones and enables bodily movement. It is a component of organs such as the gut and the blood vessels that sometimes need to change shape while they are functioning.

To make artificial blood vessels the team took smooth-muscle cells from fresh corpses and cultured them on tubular scaffolds made of a material called polyglycolic acid. Grown this way, smooth muscle secretes collagen, a structural protein that is, among several other things in the body, an important component of the walls of blood vessels. The polyglycolic acid degrades spontaneously over the course of a few weeks with the consequence that it is, in effect, replaced by the collagen. The result is a tube of the length and diameter of the original scaffold, that is composed of collagen and smooth-muscle cells-a structure similar to a natural blood vessel.

Transplanting that into a patient, however, would risk provoking an immune reaction, since the muscle cells are "foreign" tissue. To get around this, Dr Dahl and her colleagues wash the muscle cells away with a detergent, leaving just the collagen. Though the end product is a nonliving simulacrum of a blood vessel rather than an artificial version of the real, biologically active thing, experiments on animals suggest that it works well enough to substitute for a diseased natural vessel (for example, a clogged coronary artery that might otherwise cause a heart attack). It can also act as a "tap" from which the blood of people whose kidneys have failed might be drawn for dialysis.

At the moment, the options for either of these things are limited. The best approach is to use a length of vessel taken from elsewhere in the patient's body (commonly, his leg). But that requires such transplants to be healthy themselves-and each length of transplanted vessel can be used only once. Synthetic vessels made of Teflon exist, but they are prone to infection and blockage by blood clots, and tend to work for only a few months.

The animal experiments suggest the new, all-collagen vessels are capable of lasting at least a year without noticeable deterioration. They are also, once implanted, able to remodel themselves in ways that improve their function-changing shape in response to blood flow, being colonised by cells from the patient's body, and showing signs of incorporating elastin, another structural protein found in natural vessels.

Also, if kept in a suitable saline buffer at 4^C, they can be transplanted a year after they were made without a perceptible degradation of their properties. So, if human trials confirm these results, the surgical-repairer's toolkit will have acquired a useful additional instrument-and the age of the cyborg will be just that little bit nearer.

Index | Science & Technology

Extrasolar planets

Vulcan's mates

Feb 3rd 2011 | from PRINT EDITION

The search for other Earths is hotting up

K*EPLER*, America's planet-hunting space probe, is now really getting into its stride. The craft, which is armed with a telescope that can track more than 100,000 stars simultaneously, looks for slight diminutions of light caused by planetary transits. These transits are mini eclipses-the passage of the planet in question through the line of sight between its parent star and *Kepler*'s telescope. Transit detection can pick up much smaller planets than previous methods based on gravity-induced wobbles in the stellar parent. The hope is that, soon, it will find one as small as Earth.

On February 2nd America's space agency, NASA, which controls *Kepler*, announced the latest results from the probe. So far, it has seen transit-like dips in the light from more than 1,000 stars. In the case of 170 of these the pattern of dips suggests at least two planets; for 45 stars it looks as if there may be at least three planets; in eight cases there may be four planets; in one case, five; and in one other instance, six.

Most of these dips represent only candidate planets at the moment, rather than confirmed ones. Though they have happened often enough to persuade *Kepler*'s researchers that the dips themselves are real, the way in which the team is

conducting its initial search trades quantity of stars for precision of observation. This means that light from a star that *Kepler* is examining is sometimes "polluted" by light from other stars that appear near to it in the sky. If such a neighbour is a variable star (for example, a double star called an eclipsing binary in which two stars that orbit each other take it in turns to pass in front of one another), that can create the illusion of a transiting planet passing in front of the target star. Each of the candidate systems has therefore to be studied closely, to decide whether there really are planets involved.

In the case of some, that has already been done. As we reported last month, an object surprisingly similar to an astronomical wild-goose from the 19th century, the mythic planet Vulcan, was found orbiting a star dubbed Kepler 10. And in a paper published by *Nature* to coincide with NASA's announcement of its candidates, that discovery was trumped six times over by an analysis of the most populous putative system, Kepler 11, 2,000 light-years from Earth. This shows that the planets in question are, indeed, real.

Jack Lissauer, of NASA's Ames Research Centre, in California, and his team, have not only confirmed the existence of the six planets, they have worked out their orbital periods, diameters and, in all but one case, their masses. None is quite as small as Earth. They range in diameter from double the Earth's to 41/2 times, and in mass from 2 1/3 times the Earth's to 131/2 times. Nor are any of them orbiting in what astronomers fondly refer to as the "habitable zone" of Kepler 11-the distance from the star where water on the surface of an Earth-sized planet would be too cool to boil and too hot to freeze. Their orbital periods range from ten to 118 terrestrial days, which would put all but one of them inside the orbit of Mercury, were they going round the sun. The inner two appear, from their densities, to have a lot of water or methane or ammonia in them (or any mixture of the three), along with hydrogen and helium. The other three whose masses are known are less dense, so presumably have more hydrogen. The planet orbiting Kepler 10, by contrast, has an orbital period of a mere 20 hours and is so dense that it is probably made of iron.

None of which sounds all that encouraging for life-hunters. Such optimists, though, need not despair. According to Dr Lissauer, about 50 of the 1,200 or so candidate planets (if planets they be) are orbiting in the habitable zones of their parental stars. These candidates, you may be sure, will be subject to particularly intense scrutiny. The search for a new Earth has now begun in earnest.

Index | Science & Technology

Purification by pain

The masochism tango

Feb 3rd 2011 | from PRINT EDITION

Religion got it right: pain seems to assuage guilt

CATHOLIC theology says that heaven awaits the pure of heart while hell is reserved for unrepentant sinners. For the sinful but penitent middle, however, there is the option of purgatory-a bit of fiery cleansing before they are admitted to eternal bliss. Nor is inflicting pain to achieve purification restricted to the afterlife. Self-flagellation is reckoned by many here on Earth to be, literally, good for the soul.

Surprisingly, the idea that experiencing pain reduces feelings of guilt has never been put to a proper scientific test. To try to correct that, Brock Bastian of the University of Queensland, in Australia, recruited a group of undergraduates for what he told them was a study of mental acuity.

At the start of the study, 39 of the participants were asked to write, for 15 minutes, about a time when they had behaved unethically. This sort of exercise is an established way of priming people with feelings associated with the subject written about. As a control, the other 23 wrote about an everyday interaction that they had had with someone the day before.

After the writing, all 62 participants completed a questionnaire on how they felt at that specific moment. This measured, among other things, feelings of guilt on a scale from one (very slightly guilty or not at all) to five (extremely guilty).

Participants were then told they were needed to help out with a different experiment, associated with physical acuity. The 23 who had written about everyday interactions and 20 of the 39 who had written about behaving unethically were asked to submerge their non-dominant hand (ie, left, if they were right-handed, and vice versa) into a bucket of ice for as long as they could. The remaining 19 were asked to submerge their non-dominant hand into a bucket of warm water for 90 seconds, while moving paper clips one at a time between two boxes, to keep up the illusion of the task being related to physical capabilities. That done, participants were presented with the same series of questions again, and asked to answer them a second time. Then, before they left, they were asked to rate on a scale of zero (no hurt) to five (hurts worst) how much pain they experienced in the warm water and the ice.

Dr Bastian reports in *Psychological Science* that those who wrote about immoral behaviour exposed themselves to the ice for an average of 86.7 seconds whereas those who had written about everyday experiences exposed themselves for an average of only 64.4. The guilty, then, either sought pain out or were inured to it. That they sought it out is suggested by the pain ratings people reported. Those who had written about immoral behaviour rated the ice-bucket experience at an average of 2.8 on the pain scale. The others rated it at 1.9. (Warm water was rated 0.1 by those who experienced it.)

Furthermore, the pain was, indeed, cathartic. Those who had been primed to feel guilty and who were subjected to the ice bucket showed initial and follow-up guilt scores averaging 2.5 and 1.1 respectively. By contrast, the "non-guilty" participants who had been subjected to the ice bucket showed scores averaging 1.3 and 1.2-almost no difference, and almost identical to the post-catharsis scores of the "guilty". The third group, the guilt-primed participants who had been exposed to the warm bucket and paper clips, showed scores averaging 2.2 and 1.5. That was a drop, but not to the guilt-free level enjoyed by those who had undergone trial by ice.

Guilt, then, seems to behave in the laboratory as theologians have long claimed it should. It has a powerful effect on willingness to tolerate pain. And it can be assuaged by such pain. Atonement hurts. But it seems to work-on Earth at least.

The Richard Casement internship

Feb 3rd 2011 | from PRINT EDITION

We invite applications for the 2011 Richard Casement internship. We are looking for a would-be journalist to spend three months of the summer working on the newspaper in London, writing about science and technology. Our aim is more to discover writing talent in a science student or scientist than scientific aptitude in a budding journalist.

Applicants should write a letter introducing themselves and an original article of about 600 words that they think would be suitable for publication in the Science and Technology section. They should be prepared to come for an interview in London or New York, at their own expense. A small stipend will be paid to the successful candidate.

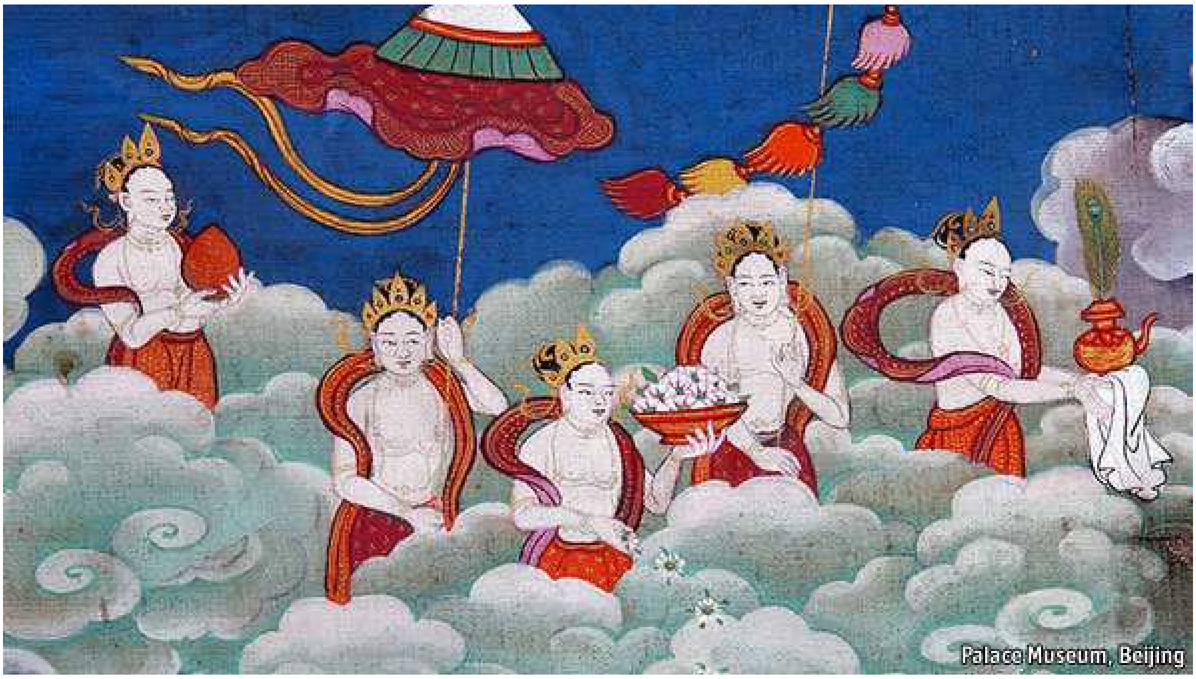
Applications must reach us by February 25th. These should be sent to: casement2011@economist.com

Chinese imperial treasure

Paradise on earth

Feb 3rd 2011 | *NEW YORK* | from PRINT EDITION

A new exhibition offers a rare chance to study the influence of Emperor Qianlong


Palace Museum, Beijing

THE 18th-century Chinese emperor, Qianlong, was a contemporary of Louis XV, Catherine the Great and George Washington; as famous throughout Asia as they were in the West. Unwilling to challenge the record of the longest-serving Chinese monarch (his beloved grandfather, the Kangxi emperor) who ruled for 61 years, Qianlong vowed to remain no more than six decades on the throne. With his eventual retirement in mind, he built the Palace of Tranquil Longevity in a corner of the Forbidden City. There, in a long, narrow walled garden, about two acres in size, he would meditate, write poetry and practise calligraphy.

"The Emperor's Private Paradise", a touring exhibition that opened at the Metropolitan Museum of Art in New York on February 1st, focuses on Qianlong's garden. It seeks to introduce visitors to the emperor's achievements and character, and to "the spirit of Chinese culture". These are big ambitions; the kind that might call for a blockbuster exhibition. This show, however, has only 90, often small, objects, intimately displayed. These apparent limitations are the key to its success. The visitor is able to concentrate on the extraordinary workmanship of the vases and bowls, brushes, paintings and lacquered screens, all loans from the Palace Museum in Beijing. The materials are sumptuous; everywhere one looks there is gold, lapis lazuli and jade. The enfilade of modestly proportioned rooms expresses the purpose of this earthly paradise as well as its design.

Qianlong's garden boasted 27 pavilions, set in a landscape of rock grottoes. Its survival testifies to the emperor's foresight and his pride; he ordered that it must never be altered. The ensemble is a rare example of 18th-century imperial values and practices, and a lesson in the modern Chinese wish to reconnect, at almost any price, with its imperial past. For much of the 20th century connoisseurs favoured the simplicity and refinement of earlier dynasties-the Song, for example, or the Ming. Chinese collectors today, like the Victorians before them, however, show a marked preference for complex, brightly coloured imperial Qing pieces. In November, a glazed porcelain vase discovered in a small house in a west London suburb sold for pound51.6m ($83m), many times its top estimate, setting a record for a Chinese work of art at auction.

The exhibition catalogue opens with a painting of Qianlong on horseback reviewing his troops. His successful military campaigns increased the size of China by a third. The artist was Giuseppe Castiglione, a Milanese Jesuit missionary and Qianlong's court painter. The emperor imported materials and techniques from abroad, including the use of perspective in painting. In the Studio of Exhaustion from Diligent Service or *Juanqinzhai*, perhaps the most elaborate pavilion in the garden, the ceiling is an atmospheric green and purple *trompe l'oeil* painting of hanging grapes. In other pavilions the emperor placed gifts he received from abroad, among them a pair of intricately lacquered Japanese cabinets and an ornate gilded clock.

At least six sites in the garden are devoted to religion. Qianlong was a devout Buddhist. In the Building of Luminous Clouds, for example, he displayed a large, 16-panel screen. Each panel frames an arresting jade portrait of a *luohan* (enlightened one). The screen, one of the most splendid pieces in the show, had long been placed flat against a wall. Restorers recently discovered on the back a series of complicated floral designs painted in gold.

Most of the Forbidden City is laid out symmetrically; Qianlong's garden is an exception, with winding paths and surprise vistas that open out seemingly at random. This design not only provided amusement, it also symbolised how retirement would free the emperor from the formality and constraints of court life. Qianlong kept his word. On the last day of the lunar year, February 8th 1795, he abdicated in favour of his son, although he would retain ultimate power until he died in 1799.

After the last emperor was expelled from the Forbidden City in 1924, most of the garden was shut off to the public, the buildings used for storage. In 2001, in a rare partnership, the Palace Museum joined with the New York-based World Monuments Fund, an international historic preservation charity, and undertook to restore it. Specialist conservators were brought in, a painting conservation studio and woodworking centre set up, and Chinese craftsmen recruited from across the country to recreate the fabulous decor. In 2008 work was finished on the Studio of Exhaustion from Diligent Service. Objects and interior decorations from the other pavilions have been temporarily removed while restoration work continues, which has made this touring exhibition possible.

When the $25m project is finished, in 2019, everything will return to its original place in the Qianlong garden. None of it is likely to be allowed to leave China again. Entrance to the buildings of the small, crowded, garden will almost certainly be restricted. This exhibition may be the only chance to have a good look at its treasures. Don't miss it.

"The Emperor's Private Paradise: Treasures from the Forbidden City" is at the Metropolitan Museum of Art, New York, until May 1st and then at the Milwaukee Art Museum from June 11th until September 12th. The catalogue is published by Yale, $65

Index | Books & Arts

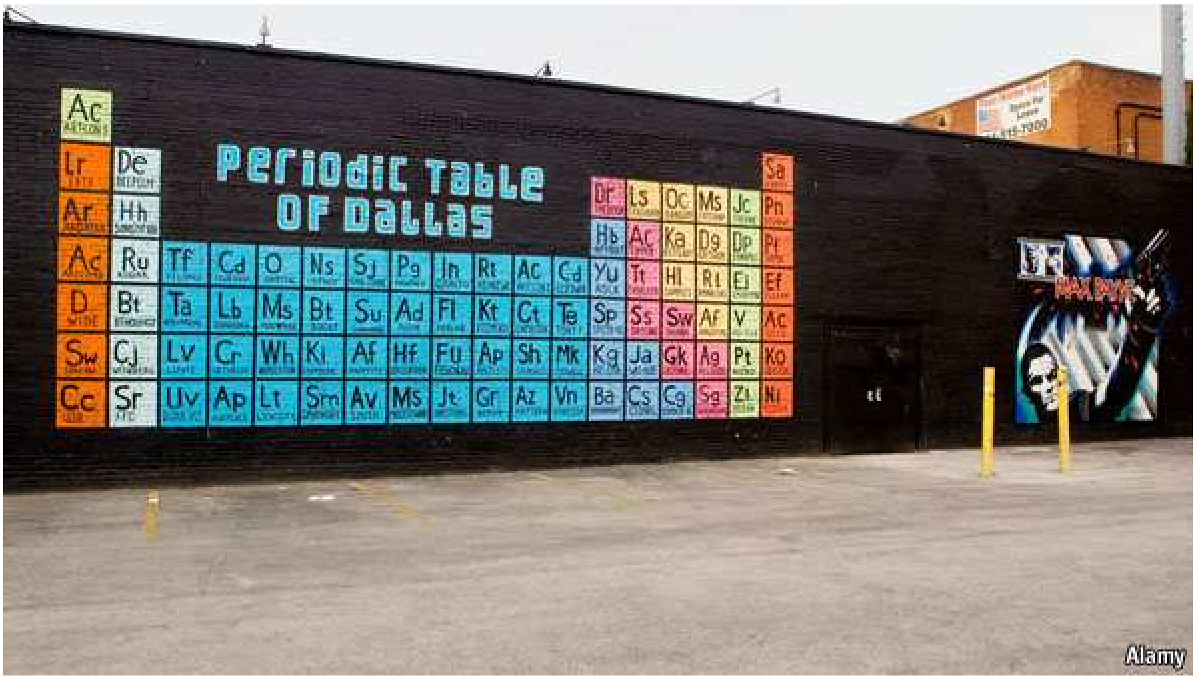
Science and culture

Elementary

Feb 3rd 2011 | from PRINT EDITION

How the world went from four elements to 118

Periodic Tales: The Curious Lives of the Elements. By Hugh Aldersey-Williams. *Viking; 428 pages; pound18.99. To be published in America by Ecco in March as "Periodic Tales: A Cultural History of the Elements, From Arsenic to Zinc"; $29.99.* Buy from Amazon.co.uk



Science, art or ice-cream paint job?

EMPEDOCLES OF ACRAGAS, a Greek philosopher, reckoned that matter consisted of four elements: earth, air, fire and water. His teachings were received wisdom for two millennia, overturned only by the birth of modern science 350 years ago. When Dmitri Mendeleev devised his periodic table in 1869, it contained 63 elements; a similar chart in a chemistry classroom now has up to 118 entries. In his book Hugh Aldersey-Williams has devised a cultural tour that maps most of them.

The journey is organised along five quirky themes: power, fire, craft, beauty and earth. For instance, Mr Aldersey-Williams groups together elements that resonate with power: economic power in the case of gold, silver and platinum; industrial might in the case of iron; power in its most literal sense when it comes to elements used in nuclear reactors. He charts a meandering route. The Aztecs and the Incas make way for Wagner's "Ring" cycle and Wallis Simpson, meteorites rain down from the skies and Glenn Seaborg crafts five new elements by bombarding heavy isotopes with neutrons.

The tales illustrate the frustrations that many chemists feel for their fickle field, particularly when experiments fail to work or instead produce inconsistent results. Even when the experiment is a success, its interpretation can be a failure. An 18th-century English clergyman, Joseph Priestley, was the first person to isolate oxygen, but failed to recognise it as an element, the honour falling instead to a Frenchman, Antoine Lavoisier. In an effort to recreate early experiments, the author collects his urine and roasts the residue for phosphorus, again without any luck.

An effort to collect a sample of every element also goes unrewarded. Staff at the Oak Ridge National Laboratory in Tennessee thwart the author's efforts to get his hands on some weapons-grade plutonium. A visit to an abandoned opencast mine on a rocky Swedish island where four rare earths were found in the 18th and 19th centuries fails to bear fruit. But he does manage to track down some elements traders who will sell him magnesium salvaged from ships and radium from the glowing hands of old wristwatches.

Ever the scientist, Mr Aldersey-Williams seeks explanations for artistic effects. He muses on how Auguste Rodin's "Thinker" leans so precariously far forward: its head rests on more than the figure's hand and knee, it transpires, because the sculpture contains a massive lead counterweight in its bottom. He goes on to recount how the allure of emeralds and

rubies is provided by chromium, which not only colours the stones but also fluoresces with red light, so that the best gems appear to flicker with inner fire.

The book is not only a cultural history of the elements, it is also a lament to the loss of science as a hobby. Enterprising schoolboys no longer organise "stinks-and-bangs" extravaganzas. Mr Aldersey-Williams bemoans the decline of classroom chemistry, and the rise of a culture in which experiments performed by teachers must be timed to coincide with the length of the lesson. Children no longer have the opportunity to do hands-on work, technicians tidy away equipment that might otherwise be put to use in class and some teachers screen films of successful experiments instead of conducting their own. Few people appreciate that the natural world is a chemical one. Instead chemicals are to be feared, and kept in a locked cupboard. The author even regrets the removal from the paintbox of rich greens based on arsenic and flame-red vermilion formed from powdered mercuric sulphide. Removing risk, he suggests, enfeebles life.

Index | Books & Arts

The Arctic

The de-icing age

Feb 3rd 2011 | from PRINT EDITION

Tomorrow at the top of the world

The New North: The World in 2050. By Laurence Smith. *Profile; 336 pages; pound20.* Buy from Amazon.com

THE first of Laurence Smith's two weddings was meant to take place in the midwinter snow not far south of the Arctic Circle. The second foresaw balmy blue skies in Palm Springs, California. As it turned out, the guests were greeted by rain and slush in the far north, then by a chill and more rain in the Californian desert.

If the weather is capable of surprising him, why should anyone trust Mr Smith's forecast for 2050? Because the growing freakiness of weather is precisely his point. Climate change is one of four megatrends, along with globalisation, population growth and surging demand for natural resources, that he thinks will shape the world over the coming decades. The first part of his book is a familiar tale of teeming cities, roaring trade, harder-to-get-at oil and rising sea levels.

But Mr Smith comes into his own when he explores the consequences of these trends (climate change especially) for the quarter of the Earth that lies at latitudes above 45^N. A geographer at the University of California, Los Angeles, he specialises in the frozen lands of Russia, Canada, Alaska and Iceland. The region is about to undergo a great transformation.

The planet's warming may be global, but climate-change models predict it will be amplified in the north. Permafrost will melt and settlement patterns will change. Inland, construction will become trickier and ice roads less dependable, so development will gravitate to the coasts. By mid-century the Arctic Ocean may be briefly free of sea ice in September, a boon to shipping. Crops will spread north as seal hunters become farmers.

Interest in the region's vast and increasingly accessible natural resources is already growing, along with the potential for conflict over the rights to these riches. Mr Smith believes there is every chance that the development of the "new north" will be peaceful, thanks to habits of co-operation and an internationally accepted rule book for laying down rights to the seabed. He sees a leading role for the region's indigenous peoples.

By 2050 the answers to some very big questions should be clear: what happens to the north's massive stocks of carbon in the soil as it defrosts; whether great schemes to channel freshwater from north to south are attempted; how populous, resource-hungry China works with Russia's emptying, resource-rich Far East. Mr Smith reckons an area about one and a half times the size of the United States will be habitable, albeit for much of the year still cold and dark. The development of the new north, he thinks, might resemble that of the American West, dotted with settlements formed for mining and trade.

Obscuring the view of 2050, however, is a caveat that looms as large as an Arctic iceberg. Mr Smith sets ground rules that allow him to extrapolate into the future without worrying about disruptions such as game-changing leaps in technology. This is an "informed thought-experiment" rather than a proper prediction. But for anyone curious about the new north-let alone thinking of investing in Arctic derivatives-it is an instructive exercise.

Food and warfare

Marching on their stomachs

Feb 3rd 2011 | from PRINT EDITION

How Germany, Japan, Britain and America fed their people

The Taste of War: World War Two and the Battle for Food. By Lizzie Collingham. *Allen Lane; 634 pages; pound30.* Buy from Amazon.co.uk

Carrots on a stick

LIZZIE COLLINGHAM, a British historian who has previously written about curry and the Raj, argues that battles over food in the second world war matter now because there will be more such fights in the future. "[T]he technological innovations of the green revolution", she writes, "have run their course, and there is little prospect of increasing yields as a result of new farming techniques." There may indeed one day be food conflicts, but this last point is nonsense. New farming techniques, such as genetic modification, that mean higher yields-possibly much higher yields-cannot be ruled out. Readers of Ms Collingham's new book, "The Taste of War", are advised to ignore the book's self-proclaimed contemporary agenda and enjoy it for what it is: a well-researched history of a neglected aspect of the war.

War had a big impact on the world's food. In the late 1930s the farm economies of the great powers were in crisis. America's Midwest was a dust bowl. Farmers in depression-hit Britain and Japan were cutting back on fertilisers, reducing output. Around 3m Chinese peasants were dying of starvation each year.

The need to feed large armies transformed some countries. One American farmer's daughter wrote that "Dad started having his land improved We... and most other farmers went from a tarpaper shack to a new frame house with indoor plumbing It... was just so modern we couldn't stand it." By 1946 America had become the world food provider of last resort.

Japan, instead, adopted a policy of rapacious requisitioning, driving many farmers to give up. In 1941 Japanese farmers produced enough rice to give each head of population 336 grams of rice a day; by 1945 that had dropped to 234 grams. By insisting the conquered territories in South-East Asia become self-sufficient, Japan also destroyed the region's food trade, and the farming system based on it: 1m-2m Vietnamese starved to death in 1944-45.

War established the new science of nutrition on a firm footing. Japan even introduced curries and Western foods to boost the protein and fat content of soldiers' diets. And just as war had an impact on food, so food had an impact on war. The effectiveness of the Allied blockade of Germany-only a dozen food ships slipped through in 1941-was one reason for the Molotov-Ribbentrop pact, under which the Soviet Union agreed to supply Germany with soyabeans and vegetables. But Herbert Backe, an agronomist, persuaded Hitler that Germany had to be self-sufficient to win the war. The *Reichsnahrstand* (Reich Food Corporation) estimated that, to feed itself, Germany needed another 7m-8m hectares of farmland. It also had to consolidate into larger, more efficient units its many handkerchief-sized farms, and therefore required new lands for displaced peasant farmers to cultivate. These considerations played a role in Hitler's decision to invade the Soviet Union.

The politics of food is frequently ignored, so it may seem carping to complain that the book overdoes its theme. It sometimes reads as if food explains the history of the second world war, whereas in reality it can hardly be said to have determined the outcome. The Soviet Union utterly failed to feed its soldiers and civilians properly, yet did more than others to defeat Hitler. Ms Collingham also gives short shrift to the cultural aspects of diet. She cites a British government decision to suppress a report on nutrition and the poor in 1936 as if publication would have changed dietary habits. Yet as George Orwell wrote at the time, the poor often chose to eat unhealthily: "the less money you have, the less inclined you feel to spend it on wholesome food. A millionaire may enjoy breakfasting off orange juice and Ryvita biscuits; an unemployed man does not." Still, these are minor flaws in an otherwise impressive history.

Index | Books & Arts

Postmortems on the financial crisis

The official verdict

Feb 3rd 2011 | from PRINT EDITION

America's FCIC report is big, surprisingly readable and a disappointment

The Financial Crisis Inquiry Report: Final Report of the National Commission on the Causes of the Financial and Economic Crisis in the United States. P*ublic Affairs; 545 pages; $14.99.* Buy from Amazon.com

THE financial crisis may end up being worse for forests than for banks. As well as all the articles and books on the topic, there is a rising number of official reports documenting how and why things went so badly wrong. Like biographies, the authorised versions of history are less fun to read than their unauthorised versions. But dryness can easily be forgiven if access to sources and careful research produces a definitive account.

The report of the Financial Crisis Inquiry Commission (FCIC), America's official probe, gets things slightly the wrong way round. It is breezily written, despite its bulk. "The fault lies not in the stars, but in us" is its way of underlining that the crisis was avoidable. The risk of lots of simultaneous defaults is compared to mould creeping through a loaf of bread.

In its way, the report is comprehensive. It covers everything from the complexities of securitisation and the gradual deregulation of Wall Street to the panics around the failures of Bear Stearns and Lehman Brothers. Obscure but vulnerable bits of the financial system, like the $2.8 trillion tri-party repo market, are rightly pulled from the shadows. It paints a picture of widespread mortgage fraud: one disabled borrower in his 80s was described on his loan form as being in light construction.

Individual missteps are chronicled, too. The failures of regulators, whom the FCIC describes as "sentries not at their posts", are laid out at embarrassing length. The Federal Reserve, as the most powerful of them, is fingered for failing to mandate better standards of mortgage underwriting. The testimony of bank bosses called before the commission may not

have revealed anything remarkably new but still has the power to chill. Chuck Prince, the former boss of Citigroup, says that it is no surprise that he had no knowledge of a mere $40 billion position on a $2 trillion balance-sheet, even though it blew up his bank and cost him his job. Citi's balance-sheet is still about that size today.

Definitive the report is not, however. Most obviously, the panel of FCIC commissioners could not decide among themselves on the causes of the crisis: four of its ten members offer dissenting opinions at the back. It is hard to be authoritative when the authors cannot agree. A criticism of three of the refuseniks-that the report fails to take proper account of the weight of global capital seeking returns by investing in American mortgages-is absolutely fair. Ask people in property what caused the crisis and the answer will invariably be the amount of liquidity in the system.

As it is, the sheer quantity of material already in the report makes it a useful reference resource but a confusing narrative. A more limited remit would doubtless have helped. Of the other official publications on the crisis, the best have focused on specific failures. Ireland's central-bank governor, Patrick Honohan, wrote a probing report in 2010 on the feebleness of Ireland's monetary and regulatory authorities in the face of an insane property-lending boom. Anton Valukas, the court-appointed examiner into Lehman's bankruptcy, produced a magisterial 2,200-page dissection last year of the bank's systematic failures of risk management and governance. Perhaps best of all is a concise, confessional report issued by UBS, a Swiss bank, as long ago as April 2008 into the failures of management that led it to take billions of dollars in write-downs and turn to the Swiss taxpayer for help.

More reports are coming, among them a more complete verdict on the Irish debacle, and the results of an investigation into Royal Bank of Scotland, another big-name banking disaster. To judge by the FCIC report, more focus and fewer flourishes would be good advice for their authors.

Index | Books & Arts

Crowdsourced film

Best. Day. Ever.

Feb 3rd 2011 | *PARK CITY, UTAH* | from PRINT EDITION

A film made by thousands is a hit at the Sundance festival

Down to earth

THE risk, director Kevin Macdonald admitted, was that the project might end up like an old Coke ad, enervatingly bland in its we-are-the-worldiness and smotherly brotherly love. And to some extent the fear was warranted: "Life in a Day", a documentary compiled from footage sent to YouTube, celebrates a shared humanity very like that which such ads seek to engender. It just does it much better.

About 4,500 hours of footage taken on July 24th 2010 were submitted to the project as 80,000 clips from 190 countries. Some cameramen were seeking to provide insights into their lives or the lives of others, to impress the world of film or just have a bit of fun and the chance to win a ticket to the Sundance film festival-which agreed to show the finished project without any sense of how it might turn out. Mr Macdonald, who has made both documentaries ("One Day in September", about the Munich Olympics) and narrative features ("The Last King of Scotland", about Idi Amin), and his team had to mine a film from the mountain of footage. Their end result was premiered on January 27th, and will open in cinemas on July 24th 2011, one year after the day of filming.

Inevitably, the film-makers chose to focus on human universals: sleeping, waking, breaking fast, laughing, crying, talking and so on. Part of their success comes from editor Joe Walker's grasp of rhythm, sometimes very firm-as when the pounding of cassava by women in Africa sets the pace for lunchtime the world over-and sometimes pleasingly loose. Another part comes simply from finding the genuinely affecting: an American boy's reluctance to be part of a family video project built around his mother's fight with cancer; a Japanese widower's morning routine in his messy apartment; a teenager's mix of exhaustion, anxiety and hope.

Perhaps the best thing about the film, though, is the splendidly arbitrary specificity which the plethora of raw material allowed. That children should love their parents is expected; seeing that love in the pride of a little boy working as a shoeshine in Peru is not. Spouses argue; but not often about one of them insisting on quoting Walt Whitman. No one expects his dog to get up and walk away with utter indifference at the exact moment that he finally comes out to his grandmother. People, and their worlds, are peculiar and surprising-not least because they can make a project with every potential for hodgepodge into something clear-eyed and moving.

Index | Obituary

Bhimsen Joshi

Feb 3rd 2011 | from PRINT EDITION

Bhimsen Joshi, singer of India, died on January 24th, aged 88

MUSIC seemed to require him to use every part of his body. From a slow, mesmerised, almost motionless start his eyes would roll upwards, foreshadowing the ascent of the notes that emerged from his distended, gaping mouth. His hands flailed, as though reaching for some imagined object just out of his grasp. Perhaps Bhimsen Joshi was trying to bring back to earth a soaring note from one of his magnificent *taans*, the series of rapid melodic passages with which great classical singers in the Hindustani tradition of northern India demonstrate how skilled they are.

Few could sing them like he could, his sonorous voice ranging effortlessly over three octaves as he explored the nuances of *ragas*-Indian music's tonal settings for improvisation and composition, each associated with a season or a time of day. Yet those who packed concert halls to listen to him sing, as Indians did for over six decades, rarely mentioned his technique. Instead, they would talk about how he had made them feel, on a night long ago at the Dover Lane music conference in Calcutta, or under a tent in the grounds of Modern School on New Delhi's Barakhamba Road, when he sang a *raga* of the monsoon-and suddenly the skies were full of thundering black rainclouds, even though it was bone dry and bitterly cold.

It was on nights like these that Indians fell in love with this strange man, whose contortions defied the best efforts of those in charge of microphone placement. For nobody could match the extraordinary ability of Bhimsen-always Bhimsen to his listeners-to capture the essential character of a *raga*, whether playful or grave, and send audiences out into the night humming, with the music under their skin, almost stunned with the force of something they could not quite comprehend.

That was what made generations of homesick Indian students turn to him on freezing winter nights in south London or Cambridge, Massachusetts, when home seemed unbearably far away and the darkness demanded nothing less than the master singing a sombre *raga* of the late night. But his voice meant a great deal even to those Indians who had little time for classical music. Millions of homes in Maharashtra woke up to him singing the *abhangs*, or hymns, of the medieval Marathi saint-poets on the early-morning programme on All India Radio's Bombay station. A much-loved television campaign promoting national unity, which opened with his singing, ensured that even those who grew up with rap rather than *ragas* knew, and loved, that voice.

His childhood, in the culturally fertile Dharwad region in the state of Bombay in British India, was suffused by music: the devotional songs his mother sang as she went about her chores; the *azaan*, or calls to prayer, from the nearby mosque. But his love for music crystallised when, at 11, on a scratchy 78rpm record, he heard Abdul Karim Khan, the great master of the Kirana school, which melodiously blended elements of the music of both north and south. That was how he wanted to sing.

The railway boy

Spurred by music, then, he ran away from home, travelling ticketless on the trains that snaked across India from the home town of one great master to another, relying on his singing to melt ticket-inspectors' hearts. Passengers, too, threw him small coins for his songs. By 1936 he had persuaded Sawai Gandharva, a disciple of Abdul Karim Khan, to teach him the intricacies of the Kirana style of singing. In 1941 he gave his first public performance; by 1946 he was famous.

His style picked up influences from all over India. True, he had the Kirana school's tunefulness. But those intricate *taans* owed something to the Jaipur school, even to the style of Faiyaz Khan of Agra. For Bhimsen Joshi was really interpreting Hindustani music in his own way. A good singer, he said, was a bit like a thief, incorporating what he liked best about others' styles into his own. He sang where he could, too, in the early years: *bhajans*, or devotional songs, for All India Radio's Lucknow station for 25 rupees a day, and occasional songs for films later.

It was hard work. A glass of rich buffalo milk in the morning; then four hours singing a *raga* in the lowest octave as the first part of up to 20 hours of practice. But milk was not all he drank. People told other kinds of stories about Bhimsen concerts, the ones where he was repeatedly announced but didn't appear for hours. It was only by the late 1970s that he overcame his problems with liquor.

His drinking, like his love for fast cars, was of a piece with the man: slightly reckless, fully immersed in whatever he was doing. His singing, he said, reflected his personality. He reckoned that everyone's should. Don't sing like me, he would urge his students. Sing like yourselves, find your own voice.

His favourite composition, in a *raga* named after a town linked in Hindu mythology to the god Krishna, used words in praise of a 12th-century Sufi saint, Khwaja Moinuddin Chisti, the saviour of the poor. But there was not one sectarian note in Bhimsen Joshi. He loved the syncreticism of Hindustani music, with its mixture of Hindu and Muslim influences. Music had no religion or caste, he often said. The religion of music was music.